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**Lessons from South Korea's Experience
with Sanctions against Russia**



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TAEHWA HONG

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Introduction

Russia and the West have found themselves enmeshed in an expansive economic war as a result of Russian President Vladimir Putin's decision to launch the full-scale invasion of Ukraine on February 24, 2022. While the conflict on the ground in Ukraine is undoubtedly—and tragically—the primary front of Russia's aggression, and where its aggression reaps its most dramatic horrors, Western powers have joined with a wide swathe of the international community to support Ukraine's resistance and hold the Kremlin to account.

But as with the kinetic war in Ukraine, the conflict did not begin one evening last February. It was first launched by Russia in response to Ukraine's pro-Western, anti-corruption Maidan Revolution that raged through the winter of 2013–2014, ultimately resulting in the ouster of Viktor Yanukovich after he sought to capitulate to the Kremlin and refuse protesters' and the wider Ukrainian public's demands for continuing the country's pro-European and pro-Western agenda. Russia was the first power to use sanctions and trade restrictions in the conflict, namely against Ukraine in 2013.¹ Russia also first sought to use Ukraine's future to bring the international economic order into the scope of its fight even before Yanukovich's ouster.² However, economic and technology restrictions on Russia have been at the core of the wider West's strategy of support for Ukraine throughout that period. The target

of these tools has changed significantly, initially aimed at deterring Russia from further aggression after 2014 to seeking to restrict its state capacity and ability to wage the war since 2022. But their global impact and Putin's attempts to undermine the international order through his own weaponization of Russia's economy and its commodities base have left the world in a new era of international economic competition, and other powers, great and small, are being impacted in ways unforeseen. States are, in turn, also learning lessons from this new era of economic warfare for the future, and the risks they might face from such conflict.

This paper examines the impact on one often overlooked but deeply affected country, the Republic of Korea (or South Korea). Seoul has a unique position in the economic war in that it was arguably the largest Western ally that did not join the sanctions regime against Russia after Putin's annexation of Crimea and fomenting conflict in eastern Ukraine in 2014. In fact, as we will see, a number of crucial economic ties between Russia and South Korea grew significantly thereafter; although this was also the case for a number of countries that induced sanctions—Germany's gas linkages with Russia in the Nord Stream 2 pipeline are perhaps the best known example. This paper will examine Seoul's strategic considerations in doing so, and the reasons that the West did not put substantial pressure on South Korea to join the sanctions regime at the time. Seoul did, however, join the sanctions regime fully in 2022. The domestic political considerations in South Korea played a key role in that shift and will also determine how the policy's effectiveness is judged and, in turn, how South Korea may be positioned for future similar economic conflict between the West and China.

The Economic War with Russia

In order to frame the discussion of how Seoul fits into economic war, it is first important to define that conflict today and the influence of the conflict of the last decade. This understanding is important not only to discuss the scope of the conflict to date but also to differentiate it from other examples of interstate competition where economics and trade rules are often used by states to compete with one another. Great, regional, and even small powers engage in economic competition with each other all the time. Even allies engage in state-backed economic competition. The scale of the conflict between Russia and the wider West, however, is of a level far more significant than rival subsidies or desires to gain an advantage for any one industry.

Robert Blackwell and Jennifer Harris provided a framework for such interstate competition with the concept of geoeconomics in their 2016 book *War by Other Means: Geoeconomics and Statecraft*. They defined it as “the use of economic interests to promote and defend national interests, and to produce beneficial geopolitical results, and the effects of other nation’s economic actions on a country’s geopolitical goals.” Geoeconomics have been at the center of the global conflict between Russia and the West that emerged out of

Putin's 2014 invasion of Ukraine. The West aims to constrain Putin's ability to wage offensive conflict. Putin aims to weaken, and arguably even destroy, the international economic order and replace it with an alternative that is more amenable to its interests.

This is the key difference between the economic war between Russia and the West and the economic competition and trade warfare between China and the West, at least since 2022, although the war in Ukraine set the groundwork for the escalation at its genesis in 2014. Economic competition between China and the West consists largely of a spat between the US and China over who will sit atop the international economic order. The position atop that order has been held by the US since the Second World War, and Washington also has an outsized role in setting the rules precisely because of the role that the US Dollar has in the global financial system, something that Beijing has increasingly chafed at. Russia has engaged in far more extensive efforts to actually undermine that order. For example, Russia tried to keep Ukraine indebted to Moscow without the ability to secure international support as seen in 2014. Additionally, in response to the wider West's most significant sanctions against a great power since before the Second World War, Russia used gas supplies to Europe to precipitate a global economic crisis. Russia has also tried to undermine the US and its dollar's paramount position, which enables Washington a sanctions power that no other country has, namely effective extra-territoriality. This means that US sanctions—whether financial restrictions targeting Russia's banks or trade restrictions aimed at banning the use of technology, machinery, and intellectual property for the Kremlin's war effort—can be enforced around the world. It is precisely that power that

Russia seeks to erode, and ultimately eradicate.

Nevertheless, the fight is one that the US, even if it has led it, cannot fight alone. The US can enforce its sanctions by issuing fines or threatening restrictions against companies that violate them, and it is undoubtedly willing to do so even when it chafes relations with allies—whether in Russia’s case or others, for example in the 2018 unilateral withdrawal by the Trump Administration from the Joint Comprehensive Plan of Action (JCPOA). European countries and the wider West almost universally opposed that move, but they did not directly challenge the sanction, though there was ample discussion of payment systems aimed at mitigating the pain for European companies.³ The more Washington attempts to ‘go it alone’ on sanctions in any one case, the more threat there is to its control of crucial chokepoints in the banking and financial system, which risks undermining the effectiveness of its ability to introduce sanctions in the long term. Additionally, the globalized nature of the economy means that many of the key technologies that the US seeks to deny to Russia, or any other future competitor, are largely not manufactured in the US, even when its companies own a large share of the underlying intellectual property. Additionally, there are many sectors of the global economy where the US plays only a small role or does not have significant influence.

Sanctions are the US and the wider West’s key tool in the economic war, but they have blowback costs for the countries imposing them. This can have substantial political ramifications, and the wider West is broadly more susceptible to these than Russia, or other sanctions-targeted countries such as the Democratic People’s Republic of Korea

(North Korea) or Iran, because they have democratic accountability. The ability to wage economic war, and its effectiveness, therefore depends not only on the US but on how the wider West and international community supports, joins, and relates to them. With a crucial role in the global technology sector, a world-leading shipping industry, and a need to balance Euro-Atlantic security interests with its own security concerns in relation to North Korea, South Korea's experience provides valuable lessons on how the wider West's sanctions policy against Russia has developed and its implications for future major economic conflict.

The Development of Korea's Sanctions Against Russia

Contrasting Responses: 2014 and 2022

While the American and European responses to Russia's launch of the war in Ukraine in 2014 are, in retrospect, frequently criticized for being lackluster, South Korea's reaction neared nonexistent. While Seoul joined in criticizing Russia's actions, it did not impose any sanctions and continued with most ongoing joint economic projects. For the next few years, the South Korean foreign policy establishment pondered ideas to best circumvent Western sanctions on Russia. Confronting Russia for Crimea was never an option seriously considered by most foreign policy thinkers.

In 2022 however, South Korea much more proactively responded to Russia's invasion of Ukraine. It imposed multiple financial and trade sanctions, condemned its actions, provided economic assistance to Ukraine, and is allegedly providing arms to countries that are sending weapons to Ukraine. South Korean officials, media, and the public overwhelmingly concur on the need to prevent Russia's victory, albeit with significant divergences on the extent of effort they are willing to invest.

However, as will be explained in later sections, it is worth noting that the South Korean response has been gradual, nuanced, and often contradictory.

When Russian troops amassed near the Ukraine border in late 2021, South Korea did not join its Western partners in condemning Putin. When the invasion became imminent, with US intelligence suggesting the war could happen anytime soon, South Korean officials continued to stress the importance of Korea-Russia cooperation. When the war began, Seoul initially only expressed the intent to “join international sanctions.” It was only later that it decided to impose its own unilateral sanctions. While the change in government to the Yoon Suk Yeol administration in May 2022 led to a more pronounced alignment with the West, South Korea has been careful not to “completely burn the bridge with Russia.”

Despite continued assistance to Ukraine, even including indirect weapons sales, South Korea has been very careful to not antagonize Russia completely. While the US and its European allies officially designated Russia as a security threat, South Korean officials have insinuated that the Korea-Russia relations remain valuable. Unlike many European countries and Japan, Korea did not expel Russian diplomats. Russia has also measured its response to South Korea. Despite initial threats to help North Korea retaliate against South Korea’s assistance to Ukraine, there has been little evidence suggesting such actions. Furthermore, South Korean companies have maintained a limited but significant presence in the Russian market, often with the government’s help.

This report seeks to outline the following aspects of South Korea's reactions and their implications.

The first section provides an overview of South Korea's sanctions on Russia since February 2022, explores the types of sanctions the South Korean government imposed on Russia, and compares Korea-Russia trade since the war with previous records.

The second section reviews the status quo of South Korean companies operating in Russia and how they are managing the tricky market situation, sometimes with the help of the Korean government. This section further analyzes how South Korean companies are switching tactics to stay in the Russian market and if and where they are facing renewed competition from Chinese companies.

The third section considers the economic impact of sanctions and the Ukraine War on South Korea. It will include reports from major South Korean research institutes on their speculations of future scenarios.

The fourth section discusses current bilateral political relations and the deteriorating political tension between South Korea and Russia. Korea's alignment with the West, particularly its indirect military support for Ukraine, rapidly cooled relations between South Korea and Russia.

The fifth section reflects the broader divergence in the conservatives' and the progressives' foreign policy outlook, specifically the partisan divide within South Korea on how to deal with Russia. While most

Western powers are facing internal division over how to best respond to Russian aggression, South Korea is also undergoing intense domestic debate on the future of Korea-Russia relations.

The sixth section reviews existing literature on the implications of Russia sanctions for similar measures on China including export controls especially in case of a Taiwan contingency. Many draw a parallel between Ukraine and Taiwan, especially in terms of deterring a more powerful authoritarian aggressor.

March 2022: Korean Government joins Russia Financial Sanctions

In March 2022, the South Korean government joined the international community's financial sanctions against Russia. Seoul announced that it will suspend financial transactions with major Russian banks, stop investing in government bonds, and exclude the country from the global financial communications network (SWIFT).⁴

The Ministry of Strategy and Finance issued a press release on March 1, saying it decided to take follow-up measures to join the sanctions against Russia, including SWIFT restrictions. The seven Russian banks and their subsidiaries that are subject to the sanctions are Sberbank, VEB, PSB, VTB, Otkritie, Sovcom, and Novikom. Domestic financial institutions, businesses, and individuals alike are suspended from conducting transactions with the affected banks.

However, South Korea maintained some exceptions, noting that “banks will be allowed to trade on the same basis as agricultural products, COVID-19 medical aid, energy-related transactions, and other sectors where the US has issued general permits and allowed transactions on an exceptional basis.”

The government also strongly advises domestic public institutions and financial institutions to suspend trading in all newly issued Russian government bonds past February 2.

“In particular, we will encourage public institutions to actively participate in the suspension of trading in Russian government bonds,” the ministry said. “Private financial institutions are also requested to take special care not to engage in related transactions so that the financial sanctions can be effectively implemented.”

“The South Korean government supports the exclusion of Russian banks from SWIFT and will implement future EU sanctions as soon as they are finalized.”

The SWIFT payment network is a global messaging system for financial transactions. It connects 11,000 banks in more than 200 countries to enable fast cross-border payments. Exclusion from SWIFT is one of the most powerful economic sanctions available. It restricts the ability to send and receive funds, such as import and export payments, to and from overseas financial institutions.

“We will continue to closely monitor the situation in Ukraine and the sanctions against Russia imposed by major countries such as

the US and the EU, and promptly decide and implement additional sanctions in line with the international community's needs," said a government official.

March 2022: Korea Joins Financial Sanctions, Suspending Transactions with Central Banks and Sovereign Wealth Funds

The government has decided to suspend financial transactions with Russia's central bank, sovereign wealth funds, and Bank Rossiya (Bank of Russia).

The government said in a press release on March 7 that it decided to further join the international community's financial sanctions against Russia, taking into account the latest developments in Ukraine and the sanctions imposed on Russia by major powers such as the US and the EU.⁵

As a result, financial transactions with Russia's central bank and sovereign wealth funds were suspended from April 8. However, banks will continue to be permitted to do business on the same basis as those sectors and entities for which the US has issued general licenses, including agricultural products, COVID-19 medical assistance, and energy-related transactions.

Previously, the US suspended transactions with Russia's central bank and sovereign wealth funds on March 28. The EU also suspended transactions with the Russian central bank on March 28 and banned

Russian sovereign wealth funds from participating in projects on March 2.

South Korea has also suspended transactions with Rossiya Bank, which was not among the seven SWIFT-excluded banks announced by the EU on February 2, though any such transactions would have already required US approval given that the bank was previously sanctioned by the US Treasury Department during the 2014 Crimea crisis.

With these additional sanctions, the government is suspending transactions with a total of 11 Russian institutions and subsidiaries. Investments in Russian sovereign debt were suspended as well in line with the sanctioning of the Central Bank of the Russian Federation.

“The financial authorities will provide detailed information on the grace period and types of transactions permitted under the US government’s general license to minimize inconvenience to financial institutions, citizens, and businesses during the implementation of the sanctions,” the government said.

February 2023: Unilateral Sanctions on Strategic Materials

In February 2023, the South Korean government banned the export of an additional 741 items to Russia, including machinery, automobiles, and chemicals that are likely to be diverted for military purposes, expanding its list of items requiring government permits to be exported to these countries from 57 to 798.⁶



South Korean multinational automobile manufacturer, Kia Corporation, commonly known as Kia store seen in St. Petersburg. Official car dealers continue their work despite the suspension of some factories in Russia and with problems in the supply of car parts. Some companies have problems with the supply of spare parts for car maintenance under warranty after sanctions from the West.

(Photo by Maksim Konstantinov / SOPA Images/Sipa USA)

On February 28, the Ministry of Trade, Industry and Energy (MOTIE) began enforcing the Amendment to the Notification of Import and Export of Strategic Goods to expand the number of Situationally Authorized Items for Export to Russia and Belarus from 57 to 798. Situationally Authorized Items are items that are not strategic goods but are prohibited from being exported in principle because they may be used for the development, production, transportation, or storage of weapons of mass destruction, missiles, and conventional weapons. The previous 57 items on the list were mostly electrical and electronic products, but the list has been greatly expanded to include general machinery, chemicals, and computers. The new export restrictions came into effect on April 24, 2023.⁷

The export ban includes quantum computers, which can be used for military encryption due to their superior performance compared to

conventional computers; general mechanical parts such as bearings, which are widely used in the production of civilian transportation vehicles; and jewelry such as sapphires and rubies, which can be used in the production of optical products such as lasers, have also been included in the export ban.

Automobiles are also subject to export controls because they can be used to transport weapons and troops in case of emergency or for military purposes by removing major parts. However, in the case of automobiles, it is expected that there will be no major difficulties in exporting domestic used cars, most of which cost \$50,000 or less.

“From now on, only exceptional cases, such as exporting existing contracts or exporting to a 100 percent subsidiary of a Korean corporation, can apply for a situation permit,” the MOTIE said. “We will also strengthen enforcement to prevent such items from entering Russia or Belarus bypassing third countries,” the ministry added.

South Korea-Russia Trade Since the Full-Scale Russian Invasion of Ukraine

According to the Korea International Trade Association, Russia fell to 15th place in terms of trade volume last year in the aftermath of the war in Ukraine, but it was the 10th largest trading partner before the war. South Korea imports petroleum products, crude oil, coal, and natural gas from Russia, and sells automobiles, auto parts, home appliances, and consumer goods.⁸

In 2022, South Korea's trade (exports + imports) with Russia totaled \$21.14 billion, down 22.6% from the previous year (\$27.34 billion). In particular, exports plummeted 36.5% from \$9.98 billion (KRW 12.93 trillion) to \$6.33 billion (KRW 8.2036 trillion). This means that major conglomerates were unable to sell their products in the Russian market. So far this year, South Korea's exports and imports to Russia have plummeted by 20.0% and 52.2%, respectively. Russia's trade ranking for 2023 (January–March) dropped another two places to 17th.⁹

Top South Korean Exports to Russia

Number	Item Name	2022		2023 Jan. - Mar.	
		Export Amount	Export Growth Rate	Export Amount	Export Growth Rate
	Total	6,328	-36.6%	1,667	-20.2%
1	Car	883	-65.4%	230	-37.1%
2	Heavy Construction Equipment	403	-5.2%	143	44.2%
3	Car parts	517	-65.7%	128	-54.3%
4	Lubricant	229	116.7%	104	559.2%
5	Cosmetics	287	-1.1%	95	47.8%
6	Synthetic Resin	440	-7.7%	83	-18.8%
7	Metal cutting machines	45	17.3%	53	713.2%
8	Transportation and Unloading Machines	119	28.6%	50	53.3%
9	Other Machinery	27	-17.5%	36	1,006.2%
10	Other Plastic Products	153	-12.1%	36	0.5%

Source: The South Korean Embassy to Russia (April 2023)¹⁰

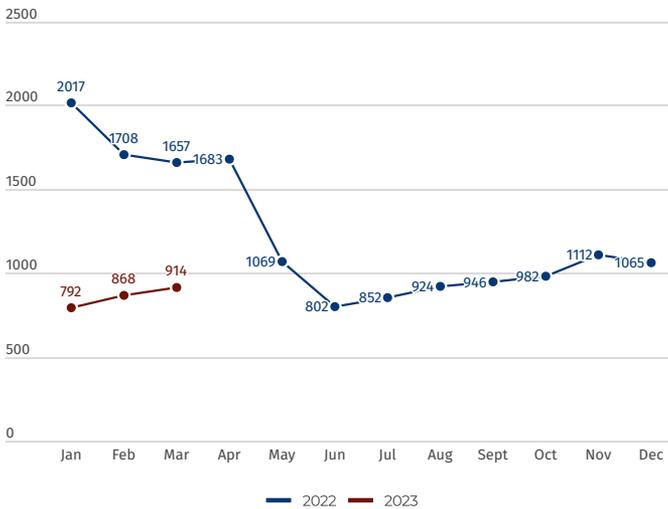
Top South Korean Imports from Russia

Number	Item Name	2022		2023 Jan. - Mar.	
		Import Amount	Import-Growth Rate	Import Amount	Import Growth Rate
	Total	14,817	-14.6%	2,574	-52.2%
1	Car	5,044	128.9%	1,299	40.8
2	Heavy Construction Equipment	1,481	-13.7%	416	-38.5%
3	Car Parts	408	35.0%	125	-10.5%
4	Lubricant	472	4.2%	124	-3.4%
5	Cosmetics	643	77.3%	116	3.7%
6	Synthetic Resin	344	38.9%	55	-34.1%
7	Metal Cutting Machine	190	-20.5%	42	5.9%
8	Transportation and Unloading Machine	116	22.7%	36	65.4%
9	Other Machinery	161	18.9%	34	-37.6%
10	Other Plastic Products	83	260.2%	30	182.7%

South Korea-Russia Trade Volume (Million dollar, %)¹¹

Division		'16	'17	'18	'19	'20	'21	'22	'23.1-3
Export	Amount	47.7	69.1	73.2	77.7	69.0	99.8	63.3	16.7
	Change Rate	1.8%	44.8%	6.0%	6.2%	-11.2%	44.6	-36.6%	-20.2%
Import	Amount	86.4	120.4	175.0	145.7	106.3	173.6	148.2	25.7
	Change Rate	-23.6%	39.3%	45.4%	-16.8%	-27.0%	63.3%	-14.6%	-52.2%
Trade	Amount	134.1	189.5	248.2	223.4	175.3	273.4	221.5	42.4
	Change Rate	-16.2%	41.3%	31.0%	-10.0%	-21.5%	55.9%	-22.6%	-43.2%
Trade Balance		-38.7	-51.3	-101.8	-67.9	-37.3	-73.8	-84.9	-9.1

Monthly Russian Import Trend (2022 and 2023)¹²



Overview of South Korean Companies Operating in Russia

As of early 2023, 160 Korean companies were operating in Russia.¹³ Major conglomerates have both corporate and production bases in Russia. According to the Korea CXO Institute, 76 major Korean companies have subsidiaries in Russia, up from 63 in 2022.¹⁴ Hyundai Motor Group has the most subsidiaries with 18, followed by Samsung and Lotte with nine each.¹⁵ LG (eight subsidiaries), CJ (three), SK (two), Doosan (two), KT&G (two), and HMM (two) also have multiple entities in the country. Hyundai Motor, Samsung Electronics, LG Electronics, Lotte, Orion, and Faldo have established large-scale production plants in the region.

Since the outbreak of the war in Ukraine, major US and European companies have sold their plants in Russia or pulled out of the country. However, while many South Korean companies have shut down or restructured their Russian factories, most of them have not pulled out entirely yet. They are “trying to stay afloat locally by paying for labor, management, and maintenance costs.”¹⁶ Many Korean companies are trying to hide their presence in Russia as much as possible to avoid being labeled “Russian enablers.”¹⁷

The presence of such companies does not necessarily undermine South Korea's own sanctions or wider sanctions, but it raises the potential incentives for not complying with sanctions.

According to the MOTIE, Russia is currently home to more than 40 companies, including large conglomerates such as Samsung Electronics, LG Electronics, and Hyundai Motor.¹⁸

Samsung Electronics produces TVs at its Kaluga plant near Moscow, and LG Electronics produces home appliances and TVs at its Luzha plant outside Moscow. Hyundai and Kia Motors operate a plant in St. Petersburg, while KT&G, Faldo and Orion also operate near Moscow.

According to a special report published by ETnews, the ongoing Russian-Ukrainian war is taking a toll on Korean companies with a presence in the region. Although key manufacturing sectors including smartphones, home appliances, and automobiles are exempt from the US Foreign Direct Payments Regulations (FDPR) export controls aimed at Russia, South Korean companies are still impacted by the disrupted supply chain.¹⁹

The war also disrupted preexisting trade infrastructure—in March 2022, Samsung Electronics had already suspended shipments of its products to Russia, citing logistic difficulties. In addition to shutting down factories, some companies have had to cut staff. Many Korean companies, however, are not considering completely pulling out of local factories and entities. They are enduring the accumulating damage and waiting for news of the end of the conflict and the

resumption of exports.

Samsung and LG Electronics

Shipments of products and parts were halted when the Russian-Ukrainian War began, and Samsung, which has a TV and monitor production plant in Vorsino, Kaluga Oblast, Russia, shut down operations early last year when it ran out of stock. As a result, local distribution channels have been selling off their remaining inventory until the first half of last year, leaving them with nothing to sell.²⁰

Samsung's once-number-one smartphone market share in Russia has fallen to zero. The company lost its share after the outbreak of the Russian-Ukrainian war when it suspended shipments due to logistic disruptions and possible US sanctions. The void left by Samsung Electronics was filled by Chinese companies Xiaomi and Huawei, which once dominated the Russian market.²¹

LG Electronics, which was the No. 1 manufacturer of major home appliances such as washing machines and refrigerators in Russia, also stopped supplying products in March last year and shut down its factory in August. About 800 billion won was invested in the LG Electronics factory and corporation in Luzha, Moscow Oblast.

Electronics companies have been operating local subsidiaries to stay afloat as it may be difficult to reenter the country even if the war ends. They are on "standby" to identify procedures for resuming exports with the Strategic Materials Management Agency and implement them as soon as the war ends.

For electronics companies, Russian production facilities are important not only for local sales but also for products destined for the neighboring Commonwealth of Independent States (CIS) and beyond. For Samsung and LG, which have spent decades establishing themselves as national brands in Russia, there is no option of pulling out.

Hyundai

Hyundai Motor Group is one of the most willing Korean investors in Russia. It has the most local subsidiaries (18) of any Korean company. However, Hyundai's sales in Russia totaled only 800 units in the first quarter of this year. It sold 200 units in January, 250 units in February, and 350 units in March. Compared to the first quarter of last year (35,520 units), the total is embarrassing (down 97%).²²

Hyundai Motor Group has a 230,000-unit-per-year plant in St. Petersburg, but it shut down in March last year and stopped exporting to Russia, so there were no cars to sell. Its market share has now plummeted to single digits, despite being Russia's number one imported car seller.

According to a report in May 2023 on BuyRussia21, a news outlet for Korean disputes in Russia, Hyundai Motor Group is looking to sell the St. Petersburg plant. Unlike Western automakers, the plan is to sell the plant to Hyundai's joint venture in Kazakhstan (Astana Motors) and turn it into an export hub for CKD (Completely Knocked-Down) cars.²³

In a nutshell, CKD is a production method in which many of the parts needed to produce a complete car are first partially assembled, then exported to another country to be fully assembled there. It is a popular method for exporting cars to developing countries. Hyundai and Kia also use the CKD export method, which involves sending chunks of partially assembled car parts (semi-finished products) from Korea to Kazakhstan to be fully assembled locally. Therefore, the sale of the St. Petersburg plant will shift the base of CKD exports to Kazakhstan.

Although the plant has been shut down for more than a year, Hyundai's "Plan B" is to make semi-finished automobiles for CKD export by sourcing scarce parts from South Korea and Turkey to send to Kazakhstan to be assembled into finished vehicles. Since there are parts complexes such as Hyundai WIA, an engine production plant, in the vicinity, it is expected that there will be no major difficulties in the operation of plan B.

Hyundai WIA's Russian plant is also "closed." Not surprisingly, Hyundai's production line has stopped. Hyundai WIA said: "We run the factory with the concept of occasionally greasing the machine." However, there have been rumors that Hyundai Motor Group's aims to restart the plant. Hyundai WIA is reportedly still maintaining its production workforce through paid leave and shift work.²⁴

According to a report published in May 2023, Hyundai posted a net loss of 2.932 billion won in the first quarter of 2022 due to the plummeted utilization of its St. Petersburg plant.²⁵

In March 2022, Hyundai closed its St. Petersburg plant. Local media reported that Hyundai's assembly production was continuing at Avtotor in Kaliningrad, a Russian offshore territory, but Hyundai denied such an allegation. In May 2022, it was reported that Hyundai's automobile assembly department at Avtotor went on a paid vacation.

In early 2023, Hyundai Motor's Russian plant began layoffs due to reduced production in the wake of the prolonged war and supply chain disruptions. According to local media, Hyundai Motor's production unit in St. Petersburg, Russia's second largest city, announced that it had entered a phase of workforce optimization in Russia as production continues to be suspended. The company did not disclose the size of the layoffs.

Hyundai explained the reasoning behind the layoffs in a letter to local employees late last year, saying, "The company has been going through a very difficult period due to the disruption of parts supply caused by the global supply chain disruption, and even as the year comes to an end, there is still no restoration of the supply chain or resumption of production."²⁶

Kia

Kia has been taking advantage of the "parallel imports" authorized by the Russian government. Parallel imports refer to "goods that are imported into a market without their manufacturers' consent." They are authentic goods, but they may be "meant by the manufacturer to be sold in a different country or region."²⁷ In May 2022, Russia

released a list of Western goods eligible to be imported under the parallel imports scheme.

The Russian scheme “offers importers protection from civil suits for bypassing official distribution channels, and much of the unauthorized imports into Russia are coming via post-Soviet countries like Kazakhstan, Armenia and Belarus.”²⁸

In March 2022, Hyundai shut down operations and exports from its St. Petersburg plant in response to Western sanctions against Russia, and it has been relying on local inventory sales. In August and September, when the inventory was nearly exhausted, the company recorded zero sales for some models.

However, Kia has seized on an opportunity provided by the parallel import schemes to circumvent the sanctions and enter the Russian market, and it is believed that the company seized the opportunity by securing an assembly production facility in northern Kazakhstan in December 2022.²⁹

In Decembers 2022, Kia Motors’s assembly plant for the Sportage SUV in Kazakhstan opened.³⁰ The plant, located in Kostanay Oblast in northwestern Kazakhstan on the border with Russia, produces the Sportage using the CKD assembly method. Kia’s decision to build a plant on the Russian border, and specifically a Sportage assembly plant, is ultimately aimed at the Russian market.³¹

Kia Sportage remains one of the best-selling cars in Russia. According to local automotive media, the Kia Sportage remained

the top-selling Korean car in Russia in November. Although sales dropped by half from 1,593 units in November 2022 to 781 units in November 2023, the Sportage retained the top spot, according to local media.

Steel and Petrochemical Industry

South Korea's petrochemical industry³² was hit hard by the Russia-Ukraine war. Petrochemical companies produce ethylene by pyrolyzing naphtha (NCC). Since the war began, the ethylene spread fell below the break-even point of US\$300 per ton in April last year and hovered between \$100 and \$200 per ton by the end of the year. Production and profitability deteriorated simultaneously.³³

Export sanctions on Russia, the world's top natural gas producer and third largest oil producer, have pushed up international hydrocarbon prices including for oil, which in turn have pushed up the price of naphtha, which is refined from crude oil. Demand for petroleum products has also slowed due to the global economic contraction.

Domestic petrochemical companies have taken steps to accelerate and extend turn-arounds, whereby the entire process unit of an industrial plant is taken off stream for an extended period for revamp and renewal. The more ethylene they produce, the more they lose. In fact, Yeochun NCC, the country's third largest petrochemical company after LG Chem and Lotte Chemical, extended its 370,000-ton capacity turn-around, which was scheduled to end in December 2022, by two months. LG Chem completed its turn-around at its 1.18 million-ton Yeosu NCC plant in late 2022.

Korea's domestic steel industry has also been hit. Although the share of steel products traded with Russia and Ukraine is not large, it has been affected by the slowdown in steel demand in the wake of the global economic slowdown.

According to the Korea Iron and Steel Association, Korea's annual crude steel production last year was 65.64 million tons, down 6.8% from 70.41 million tons the year before. The decline was even more pronounced in the second half of the year. The rate of output decline, which was in the single digits until August last year, widened to 15.3% in September, 11.1% in October, 17.6% in November, and 11.7% in December. Steelmakers are reportedly responding by diversifying their imports of scrap (raw materials), which account for about 12% of imports from Russia.

Agriculture

Korean companies that produce corn, soybeans, oats, and potatoes in Ussuriysk, Yeonju, for export to South Korea or for local sale, said they are facing difficulties in maintaining agricultural machinery for sowing in the aftermath of the crisis in Ukraine.³⁴

Some companies had planned to plant corn, soybeans, and other crops this year at a similar level to last year, but their plans were disrupted because they were unable to obtain parts in time to maintain their farming equipment, including tractors and tillers produced in Russia and other countries.

“Overseas manufacturers of agricultural machinery withdrew from Russia after the crisis in Ukraine, and the delivery period for parts, which used to take one to two months, has increased to three to four months,” said a company representative, adding, “As a result, we are facing difficulties in maintaining agricultural machinery in time for sowing crops.”

Shipbuilding and Construction

Sanctions have also made it difficult for shipbuilders to bring parts and materials needed to build ships into Russia.³⁵

At the Zvezda shipyard in Bolshoi Kamen, a small city in Primorsky Territory, three South Korean shipbuilders, including Samsung Heavy Industries [010140] and Hyundai Samho Heavy Industries, are building crude oil carriers and liquefied natural gas (LNG) carriers to supply the Russian side.

Of these, Samsung Heavy Industries signed a contract with Russia in late 2019–2020 to supply 15 LNG carriers for the Northern Sea Route (NSR) in three phases.

Currently, Samsung Heavy Industries is building the ships by importing domestically produced ship blocks, parts, and materials to the Zvezda shipyard for the first phase of the project, which will supply five LNG carriers first.

However, in 2022, the company faced difficulties in procuring materials as ships, offshore systems, and equipment exported to Russia were included in the 57 nonstrategic items that require

export licenses from the South Korean government.

In December last year, the Korean government approved the import of parts and materials requested by Samsung Heavy Industries, and the company has now secured the materials needed for the first phase of the project, but it is unclear whether it will proceed with the second and third phases.

In the years leading up to the outbreak of war in Ukraine, the three shipbuilders that announced orders for large shaving LNG carriers were grappling with an “invisible risk.” Although they have not directly announced the orders, they are backed by major Russian shipping lines aiming to operate on the Arctic route. In particular, orders for large LNG carriers from Russia have increased significantly as LNG conversion plants have been built at gas fields in Siberia’s Yamal Peninsula.

According to a report by *Maeil Business News* in November 2022, Samsung Heavy Industries is in the process of building only three of the 20 ships ordered by Russian customers.³⁶ The other 17 ships were stopped before they were even designed. Even for the three ships that are in the process, the remaining \$250 million of the \$860 million price tag is still outstanding.

Hyundai Heavy Industries and Hanwha Ocean are reportedly in the same boat as Samsung Heavy Industries. In June 2020, Daewoo Shipbuilding & Marine Engineering won an order for two LNG barges from Novatek, a Russian private gas company leading the development of the Yamal Peninsula gas field (Yamal Project), and

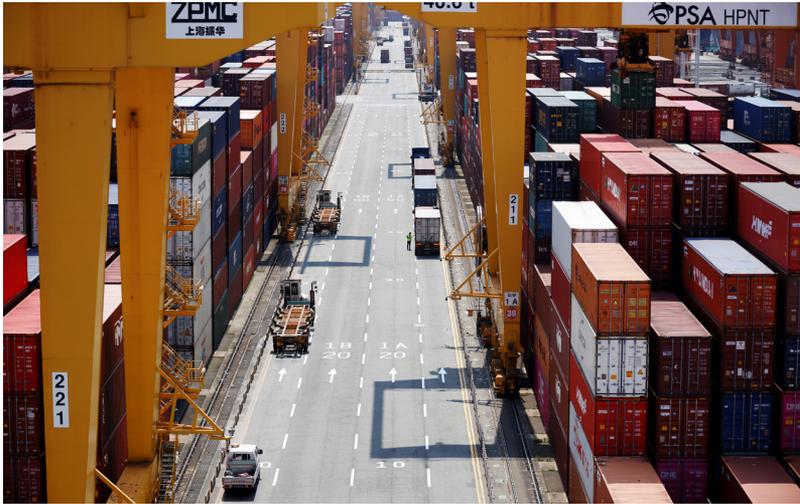
it has been working hard to win orders for icebreaking LNG gas carriers.

Like the shipbuilding industry, the construction industry, which has received only a small number of orders, is also feeling uneasy. According to the Overseas Construction Information Service, domestic construction companies' orders in Russia were not large, including \$3.41 billion in 2018, \$328 million in 2019, \$118 million in 2020, \$1.78 billion in 2021, and \$1.62 billion in 2022.³⁷

Even in 2018, when it exceeded \$3 billion, it was only 10% of the total \$32 billion in overseas construction orders won by the Korean construction industry. In 2014, Hyundai recorded the largest order with \$5.64 billion, when the total amount of overseas construction orders was \$66 billion.³⁸

Hyundai Engineering won a \$3 billion petrochemical facility order from Russia's Newstream JSC in 2018 and a \$75 million gas processing facility order in 2021, but both were canceled due to the client's circumstances. There are currently no ongoing projects.

Before and after the war, DL E&C (formerly Daelim Industries) won a \$1.24 billion contract in 2021 and Samsung Engineering won a \$1.14 billion contract in 2022. The client is the same, the Baltic Chemical Complex. The two companies said there have been no major incidents at the construction site to date. Fortunately, the risk of external factors is low as only design (E) and purchase (P) are in charge of the EPC project, which consists of design, purchase, and construction.



Pusan Newport Terminal in Busan, South Korea, July 1, 2021. Picture taken on July 1, 2021. REUTERS/Kim Hong-Ji

In particular, in February, Samsung Engineering disclosed that it changed its contracting method with clients from the lump sum method to a combination of lump sum and convertible methods. The lump sum contract requires the contractor to bear all unexpected costs, but the convertible contract reduces this burden.

Some remain concerned about the prospects of participating in postwar rehabilitation projects and working with established Russian energy companies such as Gazprom, Novatek, and large projects such as the Baltic Chemical Complex. This is because the uneasy relationship between the two countries could block the way for already awarded FEEDs to lead to subsequent EPC work. DL E&C has been awarded two FEEDs in 2021 and has several contracts with Gazprom.

Key Shipbuilding Contracts

SHI Deals	Samsung Heavy Industries	
	Order Received Date	Delivered Date
Rosneftflot 2018 shuttle tanker	May 2018	
Ship 1		2022
2019 Zvezda Deal	2019	
Ship 1		
Ship 2 & 3		
Ship 4 & 5		
Ship 6-15		
2 Aframax Deals	2019	
Ship 1		
Ship 2 & 3		
10 Ships to Sovcomflot/Novatek	Sept 2020	
Ship 1-10		Planned 2023-2024

HO Deals	Hanwha Ocean (Formerly Daewoo)	
	Order Received Date	Delivered Date
Yamal Project	July 3, 2013	
Ship 1		August 2017
Ship 2-5		Jan 2018
Ship 5-10		Unknown
Sovcomflot Delivery	Oct, 2020	
Ship 1		Unknown
Ship 2		Canceled June 2022

KSOE Deals	Korea Shipbuilding & Offshore Engineering Co. (Hyundai Samho Heavy Industries)	
	Order Received Date	Delivered Date
12 oil tankers to Sovcomflot	Sept 2016	
Ship 1		Dec 2020
Ship 2-15		Unknown
4 Aframax to Sovcomflot	March 2017	
Ship 1-4		Unknown
Aframax to Sovcomflot	November 2017	
Ship 1 & 2		Unknown
3 Orders from Russian Ship Owners	Unknown	
Ship 1-3		2022, To Oceanic Ship Owners
3 Ships to Sovcomflot	July 2021	
Ships 1-3		Exptected delivery between 2023 and 2024, to Greek ship owners

Telecommunications

Korea is a growing player in the telecommunications sector, and it has sought an increased role in the Russian economy. This was encapsulated by Korea’s KT plans to build an internet data center (IDC) in Russia. According to the telecommunications industry, KT notified the Russian authorities in mid-April to liquidate its KT Yanzhou (Primorye) IDC entity. The liquidation period is until April 3, 2024. In the meantime, the situation may improve—such as with the end of the war in Ukraine—but otherwise, the IDC will not be built.³⁹

In February 2022, KT signed a memorandum of understanding (MOU) with Russian telecommunications company Mobile Tele Systems (MTS) to cooperate and jointly build a local IDC based on its successful experience in the telecommunications business in Yeonju. It announced that it would pursue cooperation projects such as technological cooperation on AI-based video and voice solutions, media content exchange, and securing intellectual property.

Following this, last May, KT established a corporation in the Russian Federation to handle the IDC business. The prolonged war made it difficult to carry out normal business, and it entered liquidation after about a year. KT said, however, that it is not liquidating the entire entity in Russia. “The liquidation of IDC is a decision based on various environmental factors,” KT said, “and we will continue to review various options for global business development.”

Another Korean telecommunications company was also significantly impacted. POSCO International, which has offices in Moscow and Vladivostok, has reportedly drastically reduced its local workforce in Russia. The status of the Vladivostok office was also lowered to the level of a liaison office. There are no expatriate staff and only two locally recruited employees. The Moscow office also has only one expatriate and three local recruiters. POSCO International has now suspended all transactions with the Russian side.

As the Korean government announced on March 28 that it will ban the export of 741 additional items to Russia, including machinery, automobiles, and chemicals that can be diverted for military purposes, the business of trade mediation companies (formerly

known as general trading companies) such as POSCO International is expected to shrink further.

Electronics

Samsung Electronics and LG Electronics have invested heavily in developing the high-growth Russian market for their smartphone, home appliance, and TV and display businesses. In March 2019, Samsung Electronics topped the list of “100 brands with the Best Customer Experience in Russia” released by global consulting firm KPMG.⁴⁰

However, since the outbreak of the war, the companies have virtually halted factory operations and sales at their Russian subsidiaries.

Samsung shut down its TV and monitor factory in Kaluga Oblast, near Moscow, in March last year. LG Electronics also shut down its factory in Luzha, outside Moscow, which makes home appliances and TVs, last August.

According to market research firm Statista, Samsung’s sales in Russia reached 307 billion rubles (\$5 trillion) in 2020 and 361 billion rubles (\$5.87 trillion) in 2021. The company also posted a net profit of 93.53 billion won in 2021, compared to a net loss of 48.9 billion won last year. The war in Ukraine turned it into a loss-making company in one fell swoop.

Its market share has also plummeted. According to market research firm Counterpoint Research, Samsung’s share of the Russian

smartphone market fell from 35% in 2021 to 2% in December 2022.⁴¹ The share of Chinese brands such as Xiaomi soared from 40% to 95% over the same period.⁴² The market shift came as the company suspended shipments of products and parts to Russia from March last year and shut down local factories.

In 2021, the year before the war, LG's sales in Russia and its neighboring countries totaled 2.35 trillion won, according to the company's business report. That was 2.7% of LG's total sales that year, a growth rate of 22% from the previous year (2020). However, last year, the Russian subsidiary's revenue was halved to 94.5 billion won, and it posted a net loss of 23.2 billion won. Like Samsung Electronics, it turned a loss.

An electronics industry official said, "Withdrawal is not an option, as it would take astronomical time and money to reenter the Russian market," but added, "The sense of crisis has increased due to unexpected bad news such as President Yoon's foreign press conference." Maintaining local trading lines and managing customers in preparation for the resumption of business is the best course of action for now.

Food

It is no exaggeration to say that "K-food" has become a "legend" in the Russian market over the past 30 years. The cup noodles Dosirak and Choco Pie are representative. Faldo, Orion, Lotte Wellfood (formerly Lotte Confectionery), CJ, and others are expanding Korean flavors in Russia. Based on their long experience and business

strategies, they have established factories and actively implemented localization strategies.⁴³

As a result, even during the war in Ukraine, K-food has maintained a steady growth trend. On a humanitarian level, it cannot be ignored that the West did not impose sanctions on medicine, food, and some necessities.

Introduced to the Russian market in 1993, Orion's Choco Pie is now a local favorite. The company has diversified its flavors to 14 varieties and expanded its production line with three factories resulting in strong sales in the past year. Orion's sales in Russia reached KRW 209.8 billion, up 79.4% from the previous year (2021).

"We entered the local market a long time ago and have established ourselves as a domestic company, so we were not affected by the war," said an Orion representative.

Faldo, which introduced the cup noodle "bento" to Russia in 1991, long before Choco Pie, boasts a dominant share (60%) of the local containerized noodle market. Last year, Faldo's Russian subsidiary generated sales of six types of bento, up 2.9% from the previous year (2021). In October last year, Faldo acquired the Russian business unit of Spanish global food company GB Foods for tens of billions of won.

"The instant noodle brand called Bento has become a national brand in the country," said a Faldo official, adding, "We are not taking the current situation seriously."

Lotte Wellfood's sales in Russia rose 53% last year. With the local business doing well even during the war, Lotte Wellfood invested 34 billion won in its Russian subsidiary earlier this year to expand its Choco Pie production line and warehouse.

Pharmaceutical and Biotech

Due to the COVID-19 pandemic, Korean pharmaceutical and biotech companies' cooperation with Russia took a major turn. The scope of cooperation has been broad and diverse, including the domestic outsourcing of Russia's coronavirus vaccine Sputnik V, the initiation and expansion of clinical trials in Russia, the mass export of rapid coronavirus tests, and the export and technology transfer of existing medicines. However, there is a risk that the coronavirus pandemic will subside and the outbreak of war will block the path of exchange cooperation and export. Pharmaceuticals, on the other hand, are exempt from Western sanctions on Russia for humanitarian reasons.⁴⁴

Korean pharmaceutical companies with a presence in Russia include Il-Yang Pharmaceutical, Dong-A Socio Holdings, Hanmi Pharmaceutical, Huonce Biopharma, Isuapps, and Crystal Genomics. They have started by exporting and licensing medicines and transferring technology to local companies.

In 2014, Il-Yang Pharmaceutical signed an exclusive sales agreement with Russian pharmaceutical company Alpharm for leukemia treatment Radotnim/Supect and in 2016 for reflux esophagitis treatment Noltek. Alpharm is Russia's top pharmaceutical company



Source: sputnikvaccine.com

with annual sales of 1.8 trillion won. It is said to comply with European guidelines for drug manufacturing, clinical trials, and sales and marketing.

In 2017, Dong-A Socio Holdings signed a strategic partnership with Russian pharmaceutical company Farmachinez. Since 2011, the company has been trading with Farmachinez for its TB drugs Cycloserine and Terizidone and hangover remedy Morning Care, a relationship that has continued in the aftermath of the full-scale invasion of Ukraine and the introduction of sanctions. In addition, the company plans to transfer technology for some items. Farmachinez is one of Russia's top 10 pharmaceutical companies, specializing in the production and sale of anti-tuberculosis drugs, antibiotics, and AIDS drugs.

Farmachinez has also collaborated with Russia's Isuapps. In 2020,

the two companies signed a technology transfer agreement for ISU305, a biosimilar candidate for Soliris. Last year, the company also transferred its rare disease drug Pavagal to local pharmaceutical company Petrovax. Earlier this year, the company also agreed to transfer Alpharm and ISU106, a biosimilar of immune gateway inhibitor Opdivo.

In 2021, Hanmi Pharmaceutical obtained Russian approval for AmoxaltanQ (Russian name Tristinium), a three-drug combination for hypertension and hyperlipidemia, through its local partner Sanofi. Sanofi will be responsible for marketing and sales in Russia.

Last year, Huonce Biopharma received a license from the Russian health authorities for its botulinum toxin product HUVOTOX (Riztex). It is promoting local entries under the name of Novacutane BTA through Russian aesthetics company Institute of Beauty Fiji.

In March, Crystal Genomics sent an initial batch of 1.8 million capsules of Aselex for osteoarthritis to PharmAtis International in Russia. PharmAtis International plans to officially launch Aselex in Russia as soon as possible after establishing a sales and marketing strategy.

Korean Government's Efforts to Remedy the Impacts of Financial Sanctions

It is notable that, while implementing hefty sanctions on Russia, the South Korean government is also proactively seeking to minimize adverse impacts on its own citizens and companies.

The Korean government's financial sanctions on Russia were accompanied by separate measures to remedy adverse impacts on Korean expatriates in Russia. On March 18, 2022, the South Korean government announced that it plans to temporarily operate a payment system for exports and imports to and from Russia through Hana Bank and Woori Bank, which have legal entities in Russia.⁴⁵ The South Korean government also decided to increase the amount of money that can be quickly sent to Korean citizens and students living in Russia through diplomatic channels from \$3,000 to \$8,000. This is a system that allows Korean citizens to deposit money into a foreign ministry account in Korea and receive it in local currency at embassies and consulates when they need money due to an unexpected accident abroad.

Financial authorities have also decided to simplify bank loans to domestic family members of expatriates involved in the Ukraine

crisis. Some banks have been reluctant to lend to expats due to lack of regulations on how to verify overseas income documents.⁴⁶ As a result of the financial authorities' inspection of major difficulties from companies, it was found that transactions involving non-sanctioned banks and non-sanctioned items were frequently delayed or rejected due to global intermediary banks' avoidance of transactions involving Russia. "Remittances from South Korea to Russia can still be sent through non-sanctioned banks, such as local subsidiaries of Korean banks in Russia," the Financial Supervisory Service and the Ministry of Land, Infrastructure, and Transport said.

In April 2022, Korea's Ministry of SMEs and Startups and the Small and Medium Business Administration (SMBA) announced that they would support exporting SMEs affected by the crisis in Ukraine to find alternative trading lines.⁴⁷

According to the MOTIE, the government has been supporting Korean companies operating in Russia through the Russia Desk, an export control consultation center, since the outbreak of the Russian-Ukrainian war last year.

Financial authorities and the Korea Trade Insurance Corporation (K-Sure) have been supporting importers, exporters, and local companies over the past year by expanding liquidity and diversifying export lines.

The Korea Development Bank and the Export-Import Bank have launched emergency financial support programs totaling KRW two trillion for affected companies. Last year, K-Sure invested KRW two

trillion in support for the supply chain crisis and KRW 67.6 billion in special support for companies affected by the Russia-Ukraine war.

The Korea Trade-Investment Promotion Agency (KOTRA) is providing emergency logistics support to companies facing difficulties in local logistics and sharing information on the status of local port controls. It also provides storage space and inland transportation services to local logistics centers that have signed agreements with KOTRA.

Trade associations and the Financial Supervisory Service have been collecting and compiling information on the status and trends of business difficulties and are continuing to discuss countermeasures with relevant organizations.

However, companies are facing structural difficulties. In particular, Russia's exclusion from the Society for Worldwide Interbank Financial Telecommunications (SWIFT), which restricts financial transactions by Russian banks, and the devaluation of the ruble have led to delays in payment or failure to collect payments from Korean companies.

According to the Ministry of SMEs, as of November 2022, cases related to non-recovery of payments accounted for more than 60.8% of the total damage. Reduced exports due to suspended or canceled contracts and deliveries accounted for 19.5%, logistics delays and disruptions accounted for 7.3%, and import payments due to surging raw material prices accounted for 5.5%.

According to the Russian Ambassador to South Korea Andrey Kulik, the South Korean government directly told Moscow that it does not want Korean companies to withdraw from Russia.⁴⁸

In 2023, the South Korean government continues to endorse Korean businesses in Russia. As recently as in June 2023, the Consulate General of Korea in Vladivostok organized an event to identify the difficulties faced by Korean companies in the Far East and to find ways to support them.⁴⁹

Unexpected Financial Benefits of the Sanctions for Korean Banks in Russia

Two major South Korean bank subsidiaries are operating in Russia: Woori Bank and Hana Bank. One year into the war, it was expected that Woori Bank's and Hana Bank's business in Russia would suffer as local companies shut down factories and reduced bilateral exchanges. However, Korean banks in Russia have turned out to be unexpected beneficiaries of the financial turmoil.⁵⁰

Woori Bank was the first Korean bank to establish a Russian subsidiary in January 2008. As of the end of 2022, the bank operated two branches in Moscow and St. Petersburg and one office in Vladivostok. Hana Bank opened its Russian subsidiary in September 2014.⁵¹

Woori Bank's Russian subsidiary generated 36 billion won in operating profit and 12 billion won in net profit last year. Total assets also increased by more than 50%, from KRW 522 billion at the end of 2021 to KRW 786 billion at the end of last year. Hana Bank Russia's operating profit last year was 16.3 billion won, up 158% from the previous year's 6.3 billion won, and net profit was 13.9 billion won, up 148% from the previous year's 5.6 billion won. Total

assets increased 66% to 1.28 trillion won from 725.6 billion won over the same period.⁵²

As Russian banks were subject to Western sanctions, Woori Bank's and Hana Bank's Russian subsidiaries, particularly after the latter explored alternative payment networks separate from the SWIFT system given its restrictions on Russia's banking system.⁵³ In addition, investment income increased significantly as the Russian central bank significantly raised the key interest rate. Russia's benchmark interest rate rose to a whopping 20% in February last year and is currently hovering around 7%.⁵⁴

However, the prolonged war has also deepened the worries of Woori Bank's and Hana Bank's Russian subsidiaries. "In response to the prolonged war, we are focusing on risk management rather than expanding the assets of our Russian subsidiary," said a Hana Bank official.⁵⁵ "The purpose of establishing overseas subsidiaries is to provide financial support to domestic companies, expatriates, schoolchildren, and students in the country," another official said, adding, "Even if the local situation worsens, banks are likely to be the last to go."⁵⁶

Korean Perception of Plummeting Russian Credit

According to K-Sure, which publishes about 50,000 credit reports on foreign companies every year, Russia is the country with the highest proportion of companies with “poor” (R-) credit ratings. As of last year, the proportion of Russian companies with a “poor” rating reached 45%. This is the ratio of all companies that received a poor (R) rating after rating or whose ratings were not available.⁵⁷

The Trade Insurance Corporation also published a country-specific “credit risk index” based on companies rated “poor,” which excludes companies that did not submit sufficient data or whose ratings were withheld due to difficulties in verifying their submissions. Again, Russia ranked the highest of the 12 countries surveyed, at 43.1%. An increase in this index reflects an increase in the likelihood of nonpayment of trade transactions.

Many Russian companies have been subject to US economic sanctions following the war in Ukraine. The US designated 946 companies for sanctions associated with the Russia-Ukraine War last year. Sanctioned companies were rated as “junk.” This is the underlying reason why Russia’s “credit risk index” jumped nearly

six times last year to 43.1% from 7.2% in 2021. The number of companies subject to economic sanctions in Russia increased more than 12 times year-on-year last year, and the exclusion of major banks from the SWIFT system has made it more difficult than ever to transfer trade payments.⁵⁸

South Korean Companies At a Crossroad:

To Withdraw or To Stay

Most Korean experts argue that—despite the risks—economic cooperation with Russia should not be completely cut off.⁵⁹ “Russia is strong in basic science,” according to Min-hyun Jung, head of the Russia and Eurasia team at the Korea Institute for International Economic Policy. “It can create synergy with (South) Korea,” he elaborated.⁶⁰

However, Korean companies cannot easily decide to withdraw while watching the exodus of Western companies because they cannot give up the Russian market, which is connected to Eastern Europe and Central Asia. The threshold for entering the market is also high, and once a company is out, it is astronomically expensive and time-consuming to reenter.⁶¹

The past experience of holding out was also useful as a learning effect. When global companies such as Sony withdrew from Russia during the 1998 moratorium declaration, South Korean companies including Samsung Electronics actually expanded their business, laying the foundation for becoming Russia’s national brand. In 2014

and 2015, when the Russian economy fell to the bottom due to Western sanctions against Russia following Russia's annexation of Crimea and a drop in international oil prices, GM in the US and some European automakers closed their plants or pulled out, but Hyundai remained in the market until the end. As a result, Hyundai Kia's local market share rose to No. 2 overall and No. 1 among imports.

The problem is that the war is lasting longer than originally expected. Chinese companies have been quick to take over while Korean subsidiaries and factories have been shut down. And they do not have a plan B, which only adds to the headache. Representatives from companies with local presence can only say that they are "monitoring the situation closely." They do not want to talk about it.

Competition Between Korean and Chinese Companies in the Russian Market

Automobiles

A report published in March 2023 by Pressian, a Korean media company, contended that “Chinese automakers flooded the Russian market” to fill in the vacuum left by German cars.⁶² Kia and Hyundai were previously popular among the middle class, but Russia is “getting used to life without Hyundai and Kia.”⁶³

South Korea had the largest share of the Russian auto market in 2018. However, Kia and Hyundai, which produced and sold more than 200,000 vehicles a year, quickly disappeared from the Russian market in 2022 with the imposition of economic sanctions. Volvo Cars and Volkswagen have also decided to stop selling cars in Russia. With all Western companies “banned from producing and importing cars,” Russia was expected to face a shortage of new vehicles. In April 2022, car sales dropped by more than 75% year-on-year.⁶⁴

Chinese automobile companies rushed to fill the void. In early 2023, a number of Chinese automakers flooded the Russian

market: Changan, Chery (Exeed, OMODA, Jetour), Yiqi (FAW), Jianghui (JAC), Dongfeng Motor Corporation (DFM), Guangzhou Automobile (GAC), Geely (Livan), Great Wall (Skywell, Tank, Haval), Hongqi, Dongfeng Automobile (Voyah). This is a huge change from 2021, just two years ago, when Chinese automakers such as Haval, Chery, Geely, and Changan sold less than 80,000 vehicles in Russia. The same year, Kia and Hyundai sold 300,000 vehicles in the country. In 2018, Chinese cars accounted for just 2% in the Russian automobile market. By the end of 2022, the share climbed up to 30%. The Pressian report estimated that, at this rate, the share of Chinese cars in the Russian market is expected to reach 40% by the end of 2023.⁶⁵

According to a report by *Nikkei Asia*, during the first five months of 2023, “China’s Great Wall Motor and Geely captured second and third place, respectively, in terms of sales volume in Russia’s auto market.” Meanwhile, “Kia has sunk to seventh place while Hyundai ranked 11th.” Other industries are also facing similar phenomena.⁶⁶

In March, the average price for South Korean-made TVs jumped by about 20%, according to Russian media reports. To Russian consumers, the less-costly Chinese options look attractive.

When it comes to smartphones, a big factor is the ability to use payment apps from Russian financial services with the same functionality as before the sanctions. During the first half of the year, Chinese mobile phone manufacturers commanded over 70% of the Russian market, according to M.Video. More Russians are reportedly choosing Chinese products due to the level of convenience

offered.

“This is a situation where Chinese manufacturers do not have to do anything for their shares to climb,” said Naoya Hase, head of the Moscow office for the Japan Association for Trade with Russia & NIS.

Home Appliances

Similarly in the home appliances market, Chinese firms have been replacing Korean items. LG has long been a very popular brand in Russia for its home appliances—in 2021 the company dominated the market. In 2022, however, China’s Haier took the top spot, and by 2023, Korean-made home appliances were rarely seen in Russian stores. The Pressian report contended that “there is no shortage of consumer and industrial goods produced in Russia and China on store shelves ... Russians are getting used to life without Apple and McDonald’s, Kia and Hyundai, LG and Samsung.”⁶⁷

When Russia declared a moratorium in 1998 and Japanese and European companies left the Russian market, many Korean companies stayed behind. In the aftermath of the 2008 Global Financial Crisis and the 2014 Western sanctions on Russia, Korean companies also continued operations. The report noted that such a positive track record helped Korean companies not only earn unrivaled market share in the long run but also “gain the Russian consumers’ trust.”⁶⁸ However, in 2023, especially with Chinese companies quickly replacing South Korean companies in Russia, “it’s harder to win back a market once lost than it is to make new ones.”⁶⁹

A report by *The Korea Times* in April 2023 also noted that an executive at a Korean conglomerate with operations in Russia worried that “it is virtually impossible for foreign companies to return to the Russian market”: once they pull out.⁷⁰ In an interview with this report’s author, Hyomin Park, a partner at the Korean law firm Shin & Kim who has advised South Korean companies operating in Russia, noted that Korean businesses are resigned to the fact that they may never recover lost market shares. This could be the case *even if* they decide to maintain Russia operations, as many of them are “unable to exit not because of long-term assessment of recovery but because of the technical difficulties and hurdles imposed by the Russian government.”⁷¹ In fact, some businesses are concerned that they might get nationalized by the Russian government should they linger in the market for too long.

IT Products

The impact of sanctions on Russian technology results from restrictions that Korea and the wider West have imposed but also from Russian countermeasures even for companies that remain in Russia. For example, Samsung has maintained a presence in Russia since the full-scale invasion, but it is facing recent setbacks from the Russian government’s regulations.⁷² Throughout 2022, Samsung Electronics exported TVs and other home appliances by producing them at its Kaluga plant in Russia and sending them to the Eurasian Economic Union (EAEU), a group of Russia and four other ex-Soviet countries (Belarus, Kazakhstan, Armenia, and Kyrgyzstan), and then bringing them back to Russia for sale through parallel importation. Samsung has a 3.2% share of the Russian TV market,

with an estimated annual sales revenue of 60 billion rubles.

The Law on Parallel Imports, signed by Putin on March 28, 2022, allows for the importation of goods into Russia without obtaining permission from the original manufacturer (patent and trademark holder). In the case of Samsung smartphones, for example, anyone who applies for an import license is legally allowed to import them, regardless of whether they were produced in a Samsung factory or exported directly to Russia.

In May 2022, Russian authorities limited the number of products that could be imported in parallel to 200 brands across 50 items, including smartphones, other IT, and home appliances. Samsung was included on this list. The Inventive Retail Group (IRG) in Russia operated the Samsung distribution network on behalf of the company. In June 2023, however, local media reported that the Digital Ministry was discussing a ban on parallel imports of computer and IT products, including servers and data storage devices, from “unfriendly countries”—a list which includes South Korea. Western companies such as Acer, Asus, MSI, IBM, Dell, and HP are among the brands expected to be included in the parallel import ban, totaling more than 20 items. Samsung is also potentially a target.

The same month, the Russian government reportedly discussed excluding Samsung smartphones from the parallel import list. According to local Russian media outlets such as RBC and Kommersant, Russian Digital Minister Maksut Shadayev announced that the Russian government is “pushing for a ban on



Samsung Galaxy S22. (Nemanja/Adobe Stock)

parallel imports of Samsung and LG smartphones (LG stopped production in 2021, before the war).” Despite the “rerouting” from EAEU countries, Samsung’s “official” exports to Russia plummeted since the Ukraine War. The Russian smartphone market has been dominated by Chinese brands such as Xiaomi and Huawei for the past year. The move to ban Samsung from parallel import could be a critical blow.

Critically, this speculation came with the backdrop of Chinese companies’ increased presence in the Russian market. The Russian Digital Minister explicitly discussed “the presence of Chinese brands” to explain the decision. Fears of a smartphone shortage were high when Apple and Samsung stopped shipping products to Russia in March 2022, but fears were eased by the influx of Chinese brands. Russia’s No. 1 carrier, MTS, told state-run news agency TASS that

the ban on Samsung smartphones is unlikely to have a significant impact on the Russian smartphone market as consumers have shifted to Chinese brands over the past year. In August 2023, South Korean media reported that Samsung will remain on the parallel import list for the time being according to TASS.⁷³ However, concerns remain to what extent Samsung can retain its presence amid expanding Chinese market share.

According to market research firm Counterpoint Research, “At the end of 2021, before the war in Ukraine, Samsung Electronics (35%) and Apple (18%) held the first and second positions in the Russian smartphone market, respectively, but their shares plummeted to 2% and 1% in December last year, while Chinese smartphone makers such as Xiaomi expanded their market share to 95%.”⁷⁴ Domestic Russian companies also allegedly lobbied for the bans, citing “the continued presence of high-quality imported equipment on the market” as “detrimental to technological development and production.”⁷⁵

South Korean Dependence on Russian Energy

Although it has not received the attention that more prominent Russian energy-dependent Western countries like Germany have received, South Korea also has valuable lessons for how the transition away from Russian energy dependency in the aftermath of sanctions has played out.

In 2021, 73% of South Korea's imports from Russia consisted of fossil fuels.⁷⁶ Russia was South Korea's fourth-largest source of fossil fuels, but this accounted for only 9% of South Korea's total energy imports. Crude oil and natural gas have relatively modest shares of fossil fuel imports at 6% and 5% respectively, but others claim a larger share.⁷⁷ In 2021, Russia supplied 41% of South Korea's imported anthracite coal, 23% of naphtha, and 16% of bituminous coal.⁷⁸

According to a report published by the Korea International Trade Association (KITA) in June 2022, South Korea's dependence on Russian coal surpassed the 20% mark after the full-scale invasion of Ukraine.⁷⁹ This is in contrast to the EU, Japan, Taiwan, and others, which have reduced their dependence to less than 10% by reducing

their imports of Russian coal. The prolonged Russian-Ukrainian War could put pressure on the domestic industry if the Kremlin takes further retaliatory measures.

“Since March last year, the price of coal from Europe and Australia has increased significantly, but the price of coal from Russia has decreased, widening the price gap,” said the Kia, continuing that, “it is analyzed that domestic companies have increased imports of cheap Russian coal.” The port of Vostochny, a major Russian coal export port, is located close to Busan, allowing for quick transactions and relatively low sea freight costs, which has been a major factor in the increase in Russian coal imports.

If Russia controls the supply of energy raw materials, international commodity prices could rise and affect South Korean industry. After Russia’s invasion of Ukraine in late February last year, international oil prices rose sharply, as did natural gas and coal prices, increasing the cost burden on South Korean companies. A 10% increase in the price of energy raw materials, including coal, is estimated to increase the average production cost of all Korean industries by 0.64%. The cost burden is expected to be particularly high for petroleum products (5.92%); electricity, gas, and steam (4.74%); primary metal products (0.96%); and chemical products (0.93%).

Deteriorating South Korea-Russia Political Relations

Crucially, these phenomena come in the context of deteriorating South Korea-Russia relations. Since the beginning of the Ukraine War, the bilateral relations have headed for a downward spiral.

As the Russian ambassador to Seoul Andrey Kulik himself summarized in June 2023:⁸⁰

South Korea joined the so-called “first package” of sanctions against Russia in March last year. Since then, it has also joined financial sanctions against Russia and announced a list of products to be embargoed. The list has grown from 58 items last year to more than 700 this year. The high-level dialog between the South Korean and Russian governments has also been effectively suspended. Specifically, the Russo-Korean Joint Commission on Economics and Science and the Russo-Korean Forum on Regional Cooperation have been suspended. South Korea has also suspended direct flights to Russia.

In May 2023, the *Wall Street Journal* (WSJ) reported that “South Korea is transferring artillery shells for Ukraine.”⁸¹ In April 2023, South Korean President Yoon noted that “South Korea might extend its support for Ukraine beyond humanitarian and economic aid if it comes under a large-scale civilian attack.”⁸² The South Korean government’s official position is nuanced. Seoul maintains that “no 155mm artillery shells were directly supplied to Ukraine, nor were they diverted through Poland or moved to the US for the purpose of diverting them.” The South Korean government’s official position that it exported 100,000 155mm shells to the US but cannot confirm whether it loaned 500,000 to the US.⁸³

Russian officials have warned against South Korea’s gradually pronounced support for Ukraine.⁸⁴ In March 2022, South Korea was included in the Russian government’s list of 48 “unfriendly countries.”⁸⁵ “We are aware of South Korea’s decision to supply arms and ammunition to Ukraine,” Russian President Putin said in October 2022.⁸⁶

Russia has also hinted at potentially helping North Korea in retaliation, although it has not elaborated on the specifics. As of the date of writing, there has not been substantial evidence of Russia incentivizing North Korea to stir problems in the Korean Peninsula. However, there have been notable examples of consolidating Russia-North Korea partnership in the war. In December 2022, Reuters reported that the Wagner Group bought weapons from North Korea;⁸⁷ North Korean workers are also set to be dispatched to eastern Ukraine under Russian occupation.⁸⁸ In 2023, this cooperation expanded significantly. After North Korean dictator

Kim Jong Un met with Putin in Vladivostok in September 2023, North Korea shipped at least 1,000 containers to Russia, which according to Estonian intelligence, may have contained as many as 350,000 rounds of ammunition crucial to Putin’s war in Ukraine.⁸⁹ Russia was voting for sanctions against North Korea itself at the United Nations as recently as 2017, and it is all-but-certain that Pyongyang will expect future assistance in response.⁹⁰

It is important to note that despite South Korean concerns that Russia might help North Korea to retaliate against South Korean sanctions and indirect arms assistance to Ukraine, the trend points more toward Russia buying North Korean weapons and workers for its own needs in Ukraine. Furthermore, although some Korean experts worry that the Russian government could retaliate against Korean companies, there is little evidence of such measures. In an interview with this report’s author, Hyomin Park, a partner at the Korean law firm Shin & Kim who has advised South Korean companies operating in Russia, noted that they are mostly cautious to not violate US sanctions—the Russian government has not imposed meaningful restrictions on Korean companies despite the political tension.

Ultimately, Russia, wary of further isolation, has been careful not to excessively antagonize South Korea. The Russian government maintains that South Korea and Russia are partners. Russian protests on South Korea’s policies explicitly accused “tremendous pressure from the US, EU, and NATO,” shifting blame away from Seoul itself. On the issue of ammunition sales, the Russian ambassador to South Korea strikingly acknowledged that “we have no reason

to believe that South Korea has supplied arms to Ukraine.”⁹¹ He blamed “Western sanctions against Russia” for “difficulties faced by Korean companies in Russia.”

In an interview with the Korean media, the Russian ambassador even suggested trading in rubles to bypass the Western financial system:⁹²

If a national payment system is introduced, many problems between the two countries (Russia and Korea) will be solved naturally. It is also in line with the global trend for the two countries to trade in KRW and RUB... Russia already has a success story of trading in rubles. Today, most of the Russian–Chinese gas trade is conducted in rubles.

Nonetheless, South Korea is largely expected to join Western efforts to punish Russia and limit its capacity to conduct war in Ukraine.

In March 2023 Russia issued a new regulation stating that companies selling local assets must pay a mandatory contribution.⁹³ The compulsory contribution is 5 to 10% of the market value of the asset to be sold. The company’s decision to withdraw from the Russian market will also have a costly impact. Meanwhile, Korean companies are cautious to not antagonize the Russian government.⁹⁴

A report released by the KITA in June 2023 predicted that, even if Russia takes retaliatory measures such as import and export restrictions, the negative impact will be limited.⁹⁵ This is because Russia accounts for only 0.9% of Korea’s exports and 2.1% of imports.

However, the share of imports of radioisotopes, unalloyed pig iron, and ferrosilicon chromium (a core component in manufacturing steel) from Russia is more than 90%, suggesting that diversification of supply lines is necessary.

Why South Korea's 2022 Response Differed So Significantly from 2014

The Korean government's response to the 2022 Ukraine War is more sweeping than its reaction to Russia's annexation of Crimea in 2014.

Overall, international sanctions imposed on Russia following the forcible annexation of Crimea in 2014 targeted financial services, key Russian businessmen, bureaucrats, and politicians, and were limited to the export of strategic goods. However, thanks to the rising prices of international commodities and the potential of the Russian domestic market, the effect of the sanctions was limited and the impact on Russian society was not significant.

In contrast, international sanctions on Russia post-2022 completely isolated Russian society from the West. Most Russian financial institutions were cut off from the SWIFT network, imports of Russian goods were banned, and economic activity by Western companies in Russia was suspended. The lack of access to the international banking network had a severe chilling effect on business activity, and the US and EU sanctions against Russia seemed to be working, unlike the 2014 sanctions.

Compared to the South Korean government's response to the 2022 invasion, Seoul's reaction to the annexation of Crimea in 2014 was lackluster. No sanctions were imposed—only high-level visits were canceled. While the ROK government officially condemned Russia's moves, influential think tanks and academics continued to posit how best to resuscitate Korea-Russia cooperation in the narrowing window of opportunities.⁹⁶

In an interview with this report's author, a former senior South Korean Foreign Ministry official during the Park Geun-hye administration recalled: "it wasn't that we underwent an intense debate on whether to punish Russia... unilateral sanctions were off the table from the very beginning."⁹⁷ Furthermore in 2014, little overt pressure from Washington or Europe was applied on Seoul for sanctions. The former diplomat noted that while American and European governments were unhappy, they were "primarily concerned with Korean companies 'backfilling' the vacuum of withdrawing European firms."

The Korean government pledged to—and largely followed through on its promise to—not jump on the market shares left behind by European companies. However, there are also conflicting reports that Korean companies that held on in Russia post-2014 have taken much market share since and are dominating the Russian market for home appliances such as TVs, smartphones, and cars.

Both domestic and international trends shaped South Korea's reaction in 2014.

2014 International Trend

Globally, even European nations were deeply divided in their approach to Russia. Unlike the relatively united European stance in 2022 and 2023, Europe in 2014 was highly reluctant to forgo both the Russian market and the gas supply from Russia. In an interview released in June 2023, then US President Barack Obama claimed that he and German Chancellor Angela Merkel “held the line.” In reality, however, assistance to Ukraine was measured in the fear of escalation; little pressure was applied to European allies wavering or outright breaching sanctions. Merkel’s government turned a blind eye to major German companies’ violation of the EU sanctions regime, including Siemens’ sale of motors. While South Korea was not eager to sanction Russia, the international mood created a “safe space” for Seoul to maintain such a stance.

An even more ambivalent position from Japan—a frequent point of policy self-comparison for many South Korean officials—helped determine South Korea’s “soft approach.”⁹⁸ In 2014, Japan refused to impose unilateral sanctions and only did so symbolically once Washington pressured it. Japan sanctioned individuals related to the annexation of Crimea—already under Western sanctions—and restricted imports from the peninsula, but not from the rest of Russia.⁹⁹ These measures were widely interpreted as gestures of falling in line with the US but not as efforts to deter or punish Russia in any significant way. Japan’s muted response was affected by negotiations over the Northern Territories, including the Kuril Islands.¹⁰⁰ South Korean officials allegedly closely monitored such moves, reaffirming the government’s conclusion—already reached

through examination of other factors—that there was little need to proactively counter Russia when few other countries were doing the same.

In fact, after a temporary pause post-Crimea on the South Korea-Russia cooperation, it was soon resumed. In 2016, the two governments agreed to begin negotiating the Korea-Russia FTA and Korea-Eurasia FTA.¹⁰¹ In 2018, President Moon Jae-in gave a speech at the Russian Duma—the first for a South Korean president.¹⁰² His visit was also the first South Korean presidential visit to Russia since 2000. Shrinkage in trade due to Western sanctions on Russia and oil price drop significantly increased in 2017 and 2018. In 2018, the volume of bilateral trade between Korea and Russia increased 31% year-on-year to \$24.8 billion. This was nearly as much as the previous record of \$25.8 billion in bilateral trade in 2014, prior to the Crimea crisis. Korea-Russia trade also grew 41% year-on-year to \$19 billion in 2017.¹⁰³

2014 Domestic Trend

Domestically, stable management of South Korea's *immediate* neighborhood—the Korean Peninsula and Northeast Asia—has consistently been a key post-Cold War foreign policy objective. To that end, eliciting Chinese and Russian cooperation remained a traditional central goal for both progressive and conservative South Korean governments. Located in a peninsula, South Korea during the Cold War deemed it unrealistic to garner Chinese and Russian support for regional stability. Thawing of relations since the Roh Tae-woo government's Nordpolitik in the early 1990s rendered it

a genuine possibility. South Korea saw an opportunity to expand trade and investment in Russia; the Kremlin saw the relationship as a “potential lifeline in the struggles of its economic transition from communism and for bringing development to the Russian Far East.”¹⁰⁴

In the early and mid-2000s, North Korea’s nuclear weapons development aggravated the need to request Chinese and Russian assistance for influence on Pyongyang. The Six Party Talks, where China held a leading role, were often seen as one of the only few viable routes to persuade North Korea, despite arguably insignificant returns. Although Russia—unlike China—held little economic leverage over North Korea, South Korean leaders wanted it to at least not play a spoiler role.¹⁰⁵ It is no coincidence that South Korea’s bid to maintain ties with Russia despite Crimea was coupled with a simultaneous, separate overture to China to resolve the North Korean nuclear threat.¹⁰⁶

Furthermore, post-Cold War Korean leaders overwhelmingly saw the Eurasian region as an economic opportunity rather than a source of geopolitical risk. South Korea’s continental aspirations, curbed throughout the Cold War due to bloc politics, flowered from the early 1990s. The Park Geun-hye government, in power during the annexation of Crimea, was no exception. In late 2013, the Park Geun-hye administration announced the “Eurasia Initiative,” calling for connecting energy and logistics infrastructure across the continent.¹⁰⁷ President Park was personally interested in “reconnecting South Korea’s rail network to Russia’s Trans-Siberian railway.” The proposed “Win-win Eurasian energy corporation”

included “co-developing China’s shale gas and eastern Siberia’s petroleum and gas.”¹⁰⁸

These aspirations were not entirely new; ideas of Eurasian connectivity have always been a central part of South Korea’s long-term foreign policy visions. Park’s blueprint for Eurasian cooperation is strikingly similar to those proposed by previous administrations and to that of her progressive successor. This approach was buttressed by the belief that strong relations with Moscow could “help diversify its foreign policy links.”¹⁰⁹ By 2014, these ideas were still in development, albeit not being physically carried out, when Russian forces in disguise invaded Crimea. While Korea sold arms to NATO countries including Norway and Poland, enhancing the organization’s deterrence, such moves were almost entirely commercially calculated rather than out of solidarity with the European partners.¹¹⁰

The Political Environments in 2022

When Russia invaded the rest of Ukraine in 2022, the geopolitical environment had drastically shifted.

Most importantly, the US’ Great Power Competitions with China and Russia have escalated. While mounting tension with North Korea already put an early end to the proposed Eurasian Initiative, China and Russia’s increasingly revisionist aggressions and the escalating tension with the West rendered any Eurasian plans unrealistic in the short term. China’s punitive economic pressure on South Korea during the THAAD row confirmed the futility of pursuing a pan-Eurasian economic partnership.

Russia's continued diplomatic cover for North Korea along with China also became increasingly problematic in accordance with Pyongyang's provocations.¹¹¹ In July 2019, Russian jets breached South Korean airspace for the first time.¹¹²

Granted, Russia, which posed relatively little direct geopolitical threat to Korea, was seen from a different perspective than in China. Until November 2021, the Korean Gas Corporation (KOGAS) was discussing with Russia's Ministry of Far Eastern and Arctic Development ways to cooperate on natural gas projects in the Russian Far East, especially in the Sakhalin.¹¹³ In 2019, Russia even suggested supplying hydrogen fluoride to South Korea when Japan's export control on Seoul restricted its much-needed influx.¹¹⁴

However, the overwhelmingly harsh international reaction to the 2022 invasion also made it clear that Russia will remain a pariah state in the foreseeable future, obstructing hopes for constructive engagements. In the Korean media, conservative commentators repeatedly conjured up the geopolitical frame of continental authoritarian powers vs. maritime liberal democracies, urging the Korean government to assist Ukraine in the global battle against authoritarianism. Support for Ukraine was narrated as a means to strengthen the Korea-US alliance, embed Seoul within the "free world camp," and oppose revision of the border through force.

In fact, domestic narratives on South Korea's sanctions on Russia are frequently intertwined with the alliance with the US. Both those who favor more assistance to Ukraine *and* those who caution against antagonizing Russia refer to Seoul's relationship with Washington.

Broadly, the conservatives take the former position and the progressives the latter. The conservatives call for “strategic clarity” of siding with the West in the “New Cold War,” while the progressives stress the need for “strategic autonomy” that defies Washington’s requests and demands. The progressive’s implicit perception here is that Korean sanctions on Russia and assistance to the Ukraine hinge on American pressure, rather than Seoul’s independent strategic rationale or its own sense of global responsibility.

Further, Eurasian harmony is now considered a distant possibility, not only because of the ongoing US-China or US-Russia competition, but also because of the authoritarian nature of the regimes in question. South Korea’s previous “Eurasian Initiatives” were partly premised on the idea that engagement and cooperation would lead to at least some degree of political and economic liberalization in the continental powers. The success of such bids required cooperation from Russia and also China and North Korea. As the West slowly concluded that change through engagement with these nations has failed, the South Korean foreign policy establishment is starting to jettison similar hopes, at least in the near future.

There is also gradually growing recognition that Korea, an international player with the tenth largest economy in the world, needs to take up more of a role in defending the rules-based order. Public support for formally joining the G7 is being belatedly accompanied by the recognition that status brings responsibilities.¹¹⁵ However, such a mindset has yet to dominate the strategic thinking, and it is only beginning to burgeon in President Yoon’s administration, one year into office.

South Korean Domestic Politics and Russia Policy

There is a consensus on the policy elite level in South Korea that Seoul should “support Ukraine and its allies and distance itself from Russia.”¹¹⁶ However, the extent of the support that should be given is much disputed. Domestic partisanship is playing an increasingly crucial, yet often grossly overlooked, role in Korea’s response to the Ukraine War. A comparison of the Moon Jae-in administration’s and Yoon Suk Yeol administration’s Russia policies is worth an examination.

The Moon Jae-in Administration’s Responses

The beginning of the Ukraine War coincided with the lead up to the South Korean presidential election held on March 9, 2022. The outgoing progressive Moon Jae-in government—whose term ended in May 2022—was widely criticized by its political opponents for an initially lackluster reaction to the lead up to the war.

On January 28, 2022, as tensions mounted on the Ukraine-Russia border, South Korean President Moon Jae-in assembled a task force to assess the economic impact of the mounting tension between

Russia and Ukraine. Moon's speech on February 14, emphasized the impending supply chain crisis. A National Security Council (NSC) meeting on February 22—two days before the invasion—discussed the protection of South Korean expatriates and business in Ukraine. Absent in both instances was criticism of Russian aggression. On February 22, then Prime Minister—the Korean equivalent of a Vice President—Kim Bu-gyeom stressed the importance of the ROK-Russia partnership and implied that little action will be taken unless Russia launches a wholesale invasion.¹¹⁷ He asserted that the South-North-Russia pipeline business should be carried on.

These lackluster reactions did not go unnoticed among Western watchers. Karl Friedhoff of the Atlantic Council and Christian Davies of the *Financial Times* criticized Seoul's lackluster reaction, noting that South Korean refusal to impose its own sanctions on Russia is "absolutely deplorable" and "quite something from a key US partner in Asia that relies for its existence on the security guarantees of others."^{118&119} Victor Cha, Georgetown University professor and former NSC director of Asian affairs in the George W. Bush White House, tweeted: "Not good enough. Moon should condemn Putin by name, enact tough bilateral sanctions (not just watered down multilateral), & defend democracy against #russianinvasion Guard the liberal intl order. No hedging to preserve energy/NK equities, etc. No buckpassing the threat."¹²⁰ Evans Revere, former US deputy assistant secretary of state for East Asian and Pacific affairs, called South Korea "out of step"—not only out of step with the US but also out of step with the international community, undermining the perception of international solidarity among democratic and allied countries.¹²¹

When the war broke out on February 24, President Moon and Office of National Security Director (South Korean equivalent of the US National Security Advisor) Suh Hoo “expressed regret” and announced that Seoul would join international sanctions on Russia.¹²² The next day, the Foreign Ministry “strongly condemned” Russia’s armed invasion against Ukraine.¹²³ These belated remarks came days after other Western nations, including Japan, denounced Russian actions. Seoul announced its first set of sanctions on March 1, and then released a second one six days later. South Korean media “fretted over the country’s initial failure to be included on the Joe Biden administration’s list of allies aligned with the US” in its sanctions response.¹²⁴ The Moon Jae-in government’s decision to halt transactions with seven Russian banks and ban the export of strategic items in the US Commerce Department list was seen as largely driven by the shock of not being included in the list of 32 countries exempted from the US Foreign Direct Product Rule.¹²⁵ A few days later, South Korea further “banned exports to other Russian firms, the Russian Ministry of Defense, and some Belarussian entities.”¹²⁶ On March 4, 2022, Seoul was belatedly included in the exemption list.

At the same time, it should be acknowledged that the Moon government was more proactive in multilateral formats. The Korean government did not shy away from joining like-minded states to condemn Russia more openly. On February 12, Foreign Ministers from South Korea, the US, and Japan jointly declared “unwavering support for Ukraine’s sovereignty.”¹²⁷ Seoul also “voted in favor of UN resolutions condemning Russia’s invasion and suspending Russia from the Human Rights Council.”¹²⁸ In other multilateral

formats such as MIKTA—an informal grouping of middle powers composed of Mexico, Indonesia, Korea, Turkey, and Australia—and WTO South Korea expressed strong censure on Russia.

The Moon Jae-in government's support to Ukraine also included military aid, albeit limited to nonlethal assistance. South Korea “sent Ukraine over 65 different items, including helmets, bulletproof vests, medical kits, and combat rations, together worth USD 2.37 million.”¹²⁹ Humanitarian assistance included tens of millions of dollars through the UN World Food Program and direct Foreign Ministry transfers.

However, senior Moon administration officials initially rejected the idea of unilateral sanctions, noting that “it’s not an era where we can only do something on our own.” Moon also directed his officials to ensure that “the situation in Ukraine does not negatively affect the peace process on the Korean Peninsula.”¹³⁰ Seoul’s announcement that it would join the international sanctions regime, as Karl Friedhoff noted, was “cynically relying on UN sanctions it knows will never come” due to a certain Russian—and potentially Chinese—veto.¹³¹

Unilateral sanctions came later as it became clear that the US, Japan, and the EU were all intent on applying unprecedented levels of sanctions on Russia. Japan swiftly joined the West in strongly condemning Russia and actively supporting sanctions.¹³² Japan prohibited the issuance and distribution of bonds issued and guaranteed by the Russian government or government agencies in Japan. Japan also suspended visa issuance, froze assets, and imposed import and export bans on two pro-Russian republics that Russia

has recognized as independent.

During the campaign for the presidential election on March 9, influential politicians and foreign policy advisors from the progressive Democratic Party argued that the war was partially Ukraine's fault, as Kyiv failed to find a delicate balance between siding with the US and reconciling with Russia. A series of controversial remarks by then-South Korean government officials and Democratic Party figures about Russia's invasion merit examination.

“Ukraine’s imprudence was the main factor leading to the war, followed by the political calculations of American and Russian officials who prioritized their respective national interests,” Hong Hyun-ik, the chancellor of the Korean National Diplomatic Academy (a post that holds the equivalent rank of a Deputy Minister), commented on Facebook. “The important lesson for us is that if we are not a great power and make a hasty foreign policy, (war) can happen to us, not to others,” he said, adding, “we should interpret and apply this lesson well to our own circumstances.”¹³³

Justice Minister Park Bum-kye tweeted a media report criticizing Ukrainian President Volodymyr Zelensky titled: “An Amateur President Who Did Not Foresee the Russian Invasion and Escalated the Crisis.”¹³⁴ The shared report summarized foreign reactions to President Zelensky’s failure to manage the crisis, including his flip-flopping on whether to join NATO. Choo Mi-ae, Park’s predecessor, echoed his view by arguing that Zelensky, “with his immature leadership, provoked Russia and created an unmanageable crisis.”

Democratic candidate Lee Jae-myung argued that the war is the result of having an “amateurish comedian” as the president, a nod at the opposing conservative candidate Yoon Seok-youl’s lack of political experience. In a TV presidential debate, Lee asserted that Zelensky, an “amateur politician with six months of experience,” provoked Russia by announcing his intention to join NATO.¹³⁵ Despite widespread criticisms, he later added that the South Korean people can be rest assured that South Korea will not face a similar tragedy, because “if the leader is not ignorant, there is no need to worry at all,” he said.¹³⁶

A couple weeks before the invasion, despite mounting tensions in the Russia-Ukraine border, Lee met the Russian ambassador to Seoul to discuss bilateral partnerships.¹³⁷ However, after Russia launched its invasion Lee met the Ukrainian ambassador and strongly condemned Russia’s aggression against Ukraine.¹³⁸ However, he was cautious about Ukraine’s accession to the EU, refusing to specify a position on the matter.

The Yoon Suk Yeol Administration’s Approach

Meanwhile, in his own meeting with the Ukrainian ambassador, then-candidate Yoon expressed strong support for Ukraine’s application to join the EU.¹³⁹ On a separate occasion, Yoon apologized to Ukraine on behalf of the Korean people for Lee’s comments on Zelensky.¹⁴⁰ He argued that the true lesson of the war was that “wars are prevented through strong self-defense and solidarity with allies, not a declaration of the end of war or a peace agreement”—a criticism directed at the outgoing Moon government’s all-out attempt to sign

a peace treaty with North Korea.¹⁴¹ On March 9, 2022, Yoon won the election by a 0.73% margin.

Two weeks after President Yoon's inauguration on May 9, 2022, Deputy Defense Minister Shin Beom-chul condemned Russia's invasion and announced that South Korea is considering different options to help Ukraine.¹⁴² On May 29, South Korean media SBS reported that the government was contemplating providing Canada with 100,000 rounds of 155mm shells to make up for Ottawa's depleted stockpile following Canada's own provision to Ukraine.¹⁴³ Such a move caught many watchers by surprise, just a month into the new administration. In July 2022, the Korean government agreed to join price caps on Russian oil.¹⁴⁴ In September, South Korea reportedly sent weapons to Ukraine through the Czech Republic.¹⁴⁵ In November 2022, Russian and Chinese jets jointly passed through the Korea Air Defense Identification Zone.

In April 2023, President Yoon himself noted that Korea could provide military assistance to Ukraine should Russia target civilians.¹⁴⁶ He also vowed to expand nonlethal aid to Ukraine.¹⁴⁷ His national security team has been notably proactive in strengthening partnerships with Europe. Yoon attended the 2022 and 2023 NATO Summit—to which the Democratic Party, now the main opposition party, expressed concerns—where the allies condemned Russia's war.¹⁴⁸ At the 2022 meeting, Choi Sang-mok, the senior secretary to the president for economic affairs, attracted media attention by announcing: "It's high time for market diversification, because the Chinese export bonanza that we've had over the past 20 years is reaching its end ... If you want to know why we're looking to Europe

now, it's so we can prepare in advance for the structural changes in the global trade environment that we're facing."¹⁴⁹ South Korean intelligence agencies have also enhanced cooperation with European counterparts. Korea's aspiration for stronger cooperation with Europe is expected to hinge on its position on Russia.

In July 2023, Russian Defense Minister Shoigu made a surprise visit to North Korea to commemorate the 70th anniversary of the Korean War Armistice. A decade ago, in 2013, the Russian government declined Pyongyang's invitation, hoping to not irritate South Korea with whom Moscow held amiable relations at the time. In 2023, however, Russia cannot afford to weaken ties with North Korea. Shoigu's visit clearly juxtaposed with President Yoon's visit to Ukraine. The two parallel visits were widely interpreted in the Korean media as a sign of escalating a New Cold War with clear opposing sides.

However, South Korea and Russia have been very careful not to completely antagonize each other. While other Western nations have deported multiple Russian diplomats, Korea has not made a similar move. Even Japan's assertive position — “expelling nine Russian diplomats, revoking Russia's most-favored-nation trade status and referring the Ukraine situation to the International Criminal Court” did not bring about similar moves from Korea.¹⁵⁰ In turn, Russian countermeasures specifically targeting Korea have largely been symbolic. As noted, Korea has also restrained itself from directly supplying arms to Ukraine. In July 2023, local Russian news reported that, while Russia is facing problems in repaying debts, debts to South Korea were successfully repaid in November 2022.¹⁵¹

Given that US sanctions prohibit any transaction with the Russian Ministry of Finance, this was most likely enabled through a license provided by the US Office of Foreign Asset Control to Korea. That Russia fully repaid its debt to South Korea, which obtained—presumably through its own negotiation with Washington—a special license, attests to the intricacy of the relationship. As Terence Roehrig noted, “South Korea appears to have left the door open for some type of relationship with Russia in the future, and the Kremlin may also show restraint to maintain ties with Seoul.”¹⁵²

Critically, South Korea and Russia both do not see each other as a primary threat; the former is more preoccupied with North Korea and China, while the latter is overwhelmingly focused on Europe. It is very telling that China has been much more vocal against South Korea and Japan’s attendance at the 2022 and 2023 NATO Summits than Russia, NATO’s archenemy, has. In April 2022, Russia stopped issuing visas to citizens of countries included in the list of “unfriendly nations” but exempted South Korea without explanations. Seoul and Moscow see little need to “excessively” alienate each other. Nonetheless, South Korean officials believe Russia has “crossed the line” by invading Ukraine, the success of which would set a very dangerous precedent.¹⁵³ Following longtime British and Japanese rhetoric,¹⁵⁴ President Yoon in July 2023 asserted a nexus between Atlantic Security and Indo-Pacific security.¹⁵⁵

The South Korean approach to Russia remains nuanced. While South Korea is very careful about further unilateral sanctions—for it harms Korea’s own economic interests—it senses that there is little Russia can do about Korea’s assistance to Ukraine when it is preoccupied

with dealing with Europe. Even the more recent revelation in May 2023 on South Korea's artillery supply to Ukraine was met with relatively little Russian backlash.¹⁵⁶ In July 2023, President Yoon visited Poland and announced that Korea would sell more arms to the country, in addition to the \$13.7 billion arms deal last year, Seoul's biggest ever, which included supplies of South Korean rocket launchers and fighter jets to Poland.¹⁵⁷ Despite Russian threats that Russia could stop cooperating with Seoul on inter-Korean issues, there has been little evidence that Russia is supporting North Korean provocations such as missile tests.¹⁵⁸ Rather, Russia is purchasing North Korean arms for its own needs in the war.¹⁵⁹

*“So far, there have been no retaliatory actions against countries that have sent military equipment to Ukraine even though Russia has strongly condemned them. Due to possible fallout, including exits of multinational companies operating there, the Russian government also seems to remain very cautious before taking any action.” That is, given the third-party nature of the sales, Russia may hesitate to respond for fear of further damage to its economy.*¹⁶⁰

Furthermore, South Korean domestic public sentiment also suggests that the relations could be normalized relatively quickly once the war in Ukraine ends. Public opinion polls before the full-scale Russian invasion of Ukraine consistently showed that a majority of the South Korean people view Russia positively.¹⁶¹ This is not the case for any of South Korea's immediate neighbors—North Korea, China, and Japan—who have consistently been viewed negatively.

While it is more accurate to characterize public sentiment to Russia prior to the 2022 invasion as “apathy” than “love,” little historical animosity remains—again, unlike with Korea’s neighbors—as Russia is largely seen as a separate entity from the Soviet Union. It is only after the 2022 invasion that the public view drastically deteriorated.¹⁶² Still, the South Korean public tends to distinguish the Russian government from its people, which contrasts with their overwhelming disapproval of both the Chinese government and its people.¹⁶³

The Progressive vs. Conservative Divide on Korea’s Global Outlook

Some more fundamental foreign policy divergence between the progressives and conservatives merits examination. South Korea, a country reliant on international trade, faces an extremely tricky geopolitical challenge. Its regional neighbors are global powers; few of them are friendly. The Korean media frequently portrays the geopolitical environment as one of a “New Cold War.” The choice Korea will make, including its position on Ukraine and Russia, will be affected by the factors explained below.

Commonalities

Both the conservatives and the progressive are significantly conscious of Korea’s upgraded stature, especially in soft power and economy. They are both looking for a larger role in the international community. When South Korea was invited to attend the G7 meeting in 2021, political forces across the spectrum all applauded despite fierce disagreements on the then-incumbent Moon Jae-in

government's North Korea policies. South Korean administrations in the 21st century all promoted the idea of South Korea as a "Middle Power" that can exercise leadership in the region. The foreign policy establishment gradually expanded the scope of South Korean influence, initially limited to the immediate Northeast Asia.

The South Korean public particularly savors the idea of attaining "power status," such as hosting the G20, entering the G7, becoming a top 10 economy, or attaining UNSC membership. This is a phenomenon profoundly prevalent across different political leanings. Even the rekindled debate on whether South Korea should develop its own nuclear weapons despite the American nuclear umbrella is closely linked to the prestige such armament carries. The South Korean historical narrative has long encompassed the motif of "victimhood"—centuries of tragic cycle of invasions and enslavements by its more powerful allies, culminating in the Japanese colonial period that haunts Korea-Japan relations to this day. In that sense, "Global Korea" with its unprecedented soft power, economic size, and geopolitical significance serves as a vindication for the Korean people.

South Korean foreign policy thinkers across political allegiances also aspire for some degree of autonomy. Recent debates on whether Seoul should develop nuclear weapons was a very telling phenomenon, as a significant portion of both the conservatives and the progressives favor such an idea. The former is skeptical of US commitment to Korea's defense, while the latter hopes to retain strategic autonomy from Washington. Similarly, both the conservatives and the progressives are wary of the escalating US-China competition. They often see

themselves as the “shrimp caught between the whales,” preferring to maintain close ties with both whenever possible. The progressives’ penchant for inter-Korean cooperation is mostly motivated by deeply entrenched nationalism but is also partially driven by the hope that a stable Korean Peninsula could form a strong base to blunt the fallouts of the US-China competition. The conservatives’ bid to expand ties with other partners such as Japan, Australia, and Southeast Asian countries can also be partly explained by the search for alternative partners that can complement the Korea-US alliance.

The 2022 Ukraine War has posed a major challenge to both the progressive (Moon) and conservative (Yoon) South Korean administrations. Korean government officials have “indicated that there is the risk that China, North Korea, and Russia will form a bloc confronting the US-led bloc, which includes South Korea.”¹⁶⁴ In the 2000s, Korean strategists, especially the progressives, hoped to play a “balancer” role (Northeast Asia Balancer). Now, there is a quiet resignation among both conservatives and progressives that the rivalry is an inevitable structural factor in the international system. However, the latter believes that hedging between the two sides is the best option for Seoul—not because that enables South Korea as a mediator, but because ambiguity could help cushion against the fallouts of escalations. The former however calls for closer alignment with the US and its Western allies, believing that “strategic ambiguity” would simply undermine Korea’s credibility and status as a developed liberal democracy. Yet, it should be stressed that “neither the Moon nor the Yoon governments officially refer to the Ukraine conflict in the context of a new Cold War-style rivalry between the USA and China.”¹⁶⁵

When it comes to China, the South Korean foreign policy establishment is much more cautious than in dealing with Russia. Unlike its Western partners, South Korea has not requested that China stop its “No Limit Partnership” with Russia.¹⁶⁶ There has not been a single statement to that effect. Similarly, Seoul has not called for China’s constructive role in mediating peace between Ukraine and Russia. While South Korea-China relations have frayed in recent months, Seoul is very careful not to antagonize Beijing. The previous Moon Jae-in government was berated by political opponents for its allegedly supine policy toward Beijing.¹⁶⁷ The Moon government, despite fierce domestic criticism, agreed to a policy of “Three No” with China: “no additional deployment of the US-made Terminal High Altitude Area Defense anti-missile system in Korea; no participation in a US-led missile defense network;¹⁶⁸ and no involvement in a trilateral military alliance with the US and Japan.”¹⁶⁹

While Korean conservatives are considered more “China hawks” than their progressive counterparts, the picture remains much more nuanced. The more hawkish elements of conservative foreign policy thinkers have called out the “China phobia” ingrained among even conservative thinkers.¹⁷⁰ The fear that China could retaliate and ruin South Korea’s economy is a constant factor in South Korean foreign policy thinking. This calculation could partly explain occasional hedging—such as not joining 50 other states at the UN to condemn human rights abuses in Xinjiang in October 2022—that the Yoon government has displayed, despite the overall vivid alignment with the US and the West.¹⁷¹ Hence, some Western watchers contended that “the US cannot count on South Korea’s Yoon to line up against

China,” despite the Yoon administration’s markedly pro-West stance.¹⁷²

On the Ukraine War, some Korea watchers credit Seoul for being “one of the few countries to have provided the most comprehensive support to Ukraine and its partners in an Asian context.” They claim that Russia’s invasion of Ukraine has “boosted South Korea’s links with the USA, Japan, and NATO.”¹⁷³ At the same time, others have argued that “Russia’s invasion of Ukraine has reminded South Korea’s Western allies that the country remains frustratingly timid on the international stage.”¹⁷⁴ Jeffrey Robertson, associate professor at Yonsei University, wryly noted: “South Korea is on a pretty sly gig here: Refuse to donate arms to Ukraine, then sell arms to those who do. Spin the democracy, freedom, and rule of law rhetoric, and then position yourself for \$52 billion of reconstruction contracts.” Robertson raised the possibility that Korea “still pursues mercantilist ‘washing machine diplomacy’ with economic interests heavily dominating political values.”¹⁷⁵

In fact, South Korea presents a unique case in international politics whereby the fear of abandonment and the fear of entrapment are both high. Abandonment refers to the stronger ally renegeing on security commitments, “failing to provide support in contingencies where support is expected.”¹⁷⁶ Entrapment means “being dragged into a conflict over an ally’s interests that one shares only partially.”¹⁷⁷ In the traditional alliance dilemma, for the weaker ally, the risk of abandonment and entrapment tend to vary inversely; when a state fears abandonment, “it tends to show a stronger commitment to the alliance in order to get the ally to reciprocate.”¹⁷⁸ However, South

Korean strategists fear US abandonment in a North Korea conflict and entanglement in a Taiwan conflict. While the former has always plagued South Korean minds—especially with Pyongyang’s development of Intercontinental Ballistic Missiles (ICBM) that could hit the US mainland—the latter has recently aggravated with the growing tension in the Taiwan Strait.

One telling moment came in a televised presidential debate in February 2022, where the candidates—conservative and progressive—all claimed to be “the best leader to stand up to the American president and say no to the redeployment of US Forces in Korea to Taiwan in case of a Taiwan crisis.”¹⁷⁹ This bipartisan stance profoundly contrasted with former Japanese Prime Minister Abe Shinzo’s op-ed April 2022 that the US should abandon strategic ambiguity over Taiwan and declare a clear defense commitment to the island.¹⁸⁰ The belief that Korea should remain as detached as possible from a Taiwan conflict is a deeply shared assumption among many conservative and progressive thinkers. A report by *Hankook Ilbo* in August 2023 alleged that American officials hinted to their South Korean interlocutors that some United States Forces Korea (USFK) could be deployed to Taiwan in a contingency.¹⁸¹ However, Seoul has never officially elaborated on the role of USFK or Korean troops in a Taiwan conflict out of a fear of a Chinese retaliation.

A report by the Council on Foreign Relations noted that “there is always concern in South Korea that a major conflict in Europe or the Middle East will lower the US priority given to Asian issues in general and the North Korean challenge in particular.” The report also stressed that “South Korea’s default position when it comes to

major conflicts in Europe and the Middle East has been to lie low and focus on insulating economic interests in the region, even in the context of pressures to join in on sanctions and cut economic ties.”¹⁸² Even regarding Asian affairs, there is deep fear that South Korea could be abandoned at the expense of America’s prioritization of other more important allies such as Japan and Taiwan. This again is a fear shared by many conservatives and progressives alike.

Among the general constituents, both the conservatives and the progressives favor a stronger political *and* economic relationship with the US. In particular, there is a notably pervasive anti-China sentiment. It should, however, be noted that the progressive politicians’ views significantly differ (in degrees) from the progressive voters on this.

Differences

However, some profound disagreements remain between the conservatives and progressives. Progressive voices in Korea predominantly see the Ukraine War as a case study of “what could befall weaker powers who could not avoid entrapment in great power conflicts.”¹⁸³ On the other hand, the conservatives see it as a vindication of the need for a strong, official alliance with the US—something Ukraine lacked. This symbolic feature reflects some more fundamental divergences in their foreign policy platforms.

Central to the progressive foreign policy platform is inter-Korean cooperation; it has consistently been progressive administrations’ utmost priority. Throughout his five-year term, President Moon’s

foreign policy overwhelmingly focused on improving inter-Korean relations. Most foreign policy agendas became subsets of inter-Korean policies. Moon's 2018 visit to Europe for example, focused on persuading host nations to lift sanctions imposed on North Korea.¹⁸⁴ Moon's critics lamented missed opportunities to discuss a range of different strategic issues.¹⁸⁵ The last two years of his term focused on persuading the US, the South Korean public, and North Korea itself for an end of war declaration.¹⁸⁶ Hence, for Korean progressives, fraying ties with countries that could potentially help facilitate inter-Korean dialogue is dangerous. China and Russia are two such partners.

Furthermore, Korean progressives are very wary of throwing its lot into "the US-side" in the New Cold War. This is not a completely new phenomenon. When the progressive Roh Moo-hyun administration decided to send Korean troops to Iraq in 2008, many members of his own party resisted. Roh's justification—"strengthening the relationship between the US and South Korea will help resolve the North Korean nuclear issue peacefully"—eventually worked, but many progressives were uneasy with the dispatch.¹⁸⁷ In the 2020s, with escalating US-China tension over Taiwan and the South China Sea, progressive foreign policy thinkers called for a more "pragmatic foreign policy" that is not swung by ideological values.¹⁸⁸ They caution against being entrapped in the great power competition, frequently citing moments of US-West de-escalation as proof that Korea is overstretching itself by antagonizing China.¹⁸⁹ In particular, the use of the term "de-risking" as opposed to the more wholesale "de-coupling," high-level American visits to China, and continued Japan-China and Europe-China trade are used as evidence that

South Korea should also hedge between Washington and Beijing.

For the progressives, while the Ukraine War may not have direct security implications for South Korea, it nonetheless serves as a litmus test to how South Korea can maneuver and hedge between different options. Progressives continue to hope for a renewal of the Moon Jae-in administration's New Northern Policy and the Nine-Bridge Strategy, "which focused on key sectors including natural gas, rail transportation, seaports, and electricity."¹⁹⁰ Although few have come up with a clear blueprint of how they seek to renew cooperation with Russia after the war, many progressives consider the Ukraine War as a test of Seoul's will to resist US pressure and pursue an independent path. Discussion on Korea's "choice" in the Ukraine War frequently couples the discussion with a separate debate on Korea's policies regarding China and Taiwan. Some progressives even dispute the moral legitimacy of American hegemony compared to a hypothetical China's, arguing that the competition is not a "black and white" battle. Such an assumption is clearly reflected in key progressive figures' view on Ukraine, as explained in previous sections.

In contrast, South Korean conservatives feel a strong need to align with the US even more, to avoid being left out. In the early phase of Russia's invasion, the editors at the conservative *Chosun Ilbo* "called out the Moon administration for its lukewarm response on sanctions, noting that South Korea was the only US ally that dragged its heels in announcing sanctions against Russia."¹⁹¹ Certain conservative elements even "fear (that) Washington could draw new Acheson line"¹⁹² connecting Japan, Taiwan, and the Philippines against

China, while excluding South Korea.”¹⁹³ In most conservatives’ view, this warrants the need to both improve Korea’s independent defense capabilities and strengthen US security commitment to Seoul. While a dominant and powerful Russia may not pose a particular threat to South Korean security, Korean conservatives view it as a challenge to the Liberal International Order and the US hegemony buttressing it.¹⁹⁴ Watching Putin’s revanchist aspirations, some conservatives draw a parallel with North Korea’s own desire for the peninsula’s “red-colored reunification.”

Within the conservatives, there has long been an assumption that South Korea can safely rely on the US for security and on China for its economy. The debate is still evolving within the foreign policy community, but, to many, the intensifying US-China competition hints that such ambiguity is no longer viable. Conservative commentators often discuss the idea that the economy is now intertwined with security, and that it is safer to line up behind the US than to hedge between Washington and Beijing. Even improving the much frosty Korea-Japan relations, a common desire for conservative strategists, is often interpreted from the perspective of rendering Korea more “credible” in Washington’s eyes. US-South Korea-Japan trilateral cooperation is frequently understood in the policy community as a useful measure to strengthen the Korea-US alliance itself.

It is worth noting that as the so-called New Cold War intensifies, there will be more “moments of decision” for South Korea. A country highly dependent on trade, Korea is likely to face dilemmas of choice between short-term economic costs and long-term security.

Just as the Russia-Ukraine War was comprehensively assessed in Seoul based on its own geopolitical position—rather than strictly based on bilateral Korea-Russia relations—every turn of US-China or US-Russia relations would impact South Korea’s foreign policy. Especially with South Korea’s own growing global economic soft power and political influence, Seoul will increasingly see itself involved, or expected to get involved, in global affairs.

The Ukraine War has already reflected the burgeoning Korean acceptance of the “indivisibility of Indo-Pacific and Atlantic security,” a term coined and promoted by British and Japanese officials.¹⁹⁵ In his meeting with NATO Secretary General Jens Stoltenberg in July 2023, President Yoon stressed that the “Atlantic security and Indo-Pacific security are inseparable,”—the first time a senior South Korean leader explicitly adopted the idea that is now being widely shared across NATO members.¹⁹⁶ Yoon also reportedly discussed expanding intelligence sharing with NATO allies, including the US, in response to the North Korean threat.¹⁹⁷ This implies the potential widening of Seoul’s foreign policy beyond its traditional coverage of Northeast Asia.

In 2021, Russian analyst Fyodor Tertitskiy predicted: “The only scenario in which a deterioration of Russia-South Korea relations seems at all likely is an escalation of the standoff between Moscow and Washington to a state in which the fight against the Kremlin becomes the number one priority for the White House. In that case, Seoul really would be forced to show solidarity with Washington, and the Russia-South Korea friendship would become a thing of the past.”

A special report published in July 2023 by Shindonga provided a scathing criticism of the Korean progressives' stance on China:¹⁹⁸

On June 8, Chinese Ambassador to South Korea Xing Haiming invited Lee Jae-myung to his embassy residence and said, "In a situation where the United States is pressuring China with all its might, some in (South Korea) seem to be betting that the United States will win and China will lose ... they will surely regret it." The Democratic Party broadcast the scene live on YouTube. However, there seems to be little sense of urgency or regret within the Party on this occasion. Some kind of collective unconsciousness must have intervened. The central worldview at play here is anti-Americanism and anti-Japanese sentiment.

Since the end of the Cold War, the Democratic Party's foreign policy line has been clear. It was appeasement toward North Korea and China and hardline toward Japan. Its nationalist leanings are deeply embedded. It has also proclaimed the principle of self-determination in its relations with the United States. On the other hand, conservative parties have been conciliatory toward the United States and Japan and wary of China and North Korea. Throughout South Korea's modern history, the conservatives' position has been closer to the public mainstream's view. However, in the post-Cold War era after the collapse of the Soviet Union, the Democratic Party line gained prominence. The international détente mood

and the Democratic Party's line were exquisitely embraced.

Conservatives also jumped into the détente waters. In 1992, the Korea–China diplomatic relations were established by the conservative Roh Tae-woo government. The scale and scope of economic cooperation between the two countries grew by leaps and bounds. Over the past 30 years, bilateral trade has increased about 47 times. As of 2021, bilateral trade exceeded \$300 billion. Not surprisingly, China has become South Korea's largest trading partner. The June 15, 2000, inter-Korean joint declaration marked a turning point in inter-Korean relations. Bids for reconciliation and cooperation with North Korea became the accepted norm. Therefore, the South Korean Democratic Party's dovish policies were both legitimate and beneficial.

The situation has changed however. China is not the same country it was when South Korea established diplomatic relations with it. Historian Niall Ferguson, a professor at Stanford University's Hoover Institution, calls it the Second Cold War. Following the first Cold War between the United States and the Soviet Union, a Second Cold War broke out between the United States and China. Russia's invasion of Ukraine must also be understood in the context of the Second Cold War.

Case Study:

President Yoon Suk Yeol Visits Ukraine in July 2023

Most recently, President Yoon's surprise visit to Ukraine in July 2023 revealed a dramatic political divide within Korea on the country's role in the Ukraine War and in the broader "New Cold War."

Democratic lawmakers strongly criticized Yoon's visit, asserting that it jeopardized South Korea's national security and derailed any hopes of future Korea-Russia cooperation.¹⁹⁹

Kim Eui-gyeom, a democratic lawmaker, argued: "China and Russia are like an overflowing river ... President Yoon's actions and words are pushing the fate of our country and people into the Gongpyeong underpass (where devastating floods swept across on the day of Yoon's Ukraine visit)."

Kim Byung-joo, Democratic Party Secretary of the National Assembly's Defense Committee and a former four-star general (Deputy Commander of the ROK/US Combined Forces Command) said: "Peace and war are one word in Ukraine. Peace comes only when the war ends ... it (visiting Ukraine) also means joining the war initiative." Kim further accused Yoon of "bringing a war cloud to the Korean Peninsula" by "declaring himself an enemy of Russia."

Four-term democratic lawmaker Kim Tae-nyeon echoed this view, asserting: "the visit is a dangerous move to bring the clouds of war to the Korean Peninsula," adding, "It's like a declaration that South Korea, a ceasefire country, will go to war against Russia... On the

contrary, we absolutely need the help of Russia and China, both members of the UN Security Council, to curb North Korea's nuclear program."²⁰⁰

Lim Jong-seok, former President Moon Jae-in's first chief of staff, concurred by noting that Yoon is "waving the outdated liberal flag and denying South Korea's national interests" and that he has turned Russia into a "de facto enemy." "President Yoon is now lost somewhere in the Cold War," Mr. Lim said, "betraying South Korea's national interests by engaging in crude ideological diplomacy and outrageous impersonations of the US president."²⁰¹

The Editorial Board of *Hankyoreh*, a prominent left-wing newspaper, criticized Yoon for disregarding cooperation with Russia and China that "is essential for managing the situation on the Korean Peninsula, including resolving the North Korean nuclear issue." It further noted that President Yoon's "overt pro-Western diplomacy in the context of the New Cold War" is provoking neighboring countries, calling for a more "balanced diplomacy."²⁰²

Kyungbyang, another main progressive newspaper, argued that the visit essentially tied Seoul's hands, as Yoon now "would logically have nothing to say to Western demands to directly arm Ukraine."²⁰³ Meanwhile, South Korea is "distancing itself from China and Russia."

Meanwhile, conservative media and politicians have set a completely different tone.

The conservative newspaper *Chosun Ilbo* defended Yoon’s visit and criticized the Democratic Party, writing “...With the help of the international community, South Korea rose from the ashes of war to become a liberal democracy with one of the top 10 economies in the world... Opposition parties have criticized the visit as ‘antagonizing Russia’ and bringing the embers of war to the Korean Peninsula ... However, if we turn a blind eye to the suffering of Ukraine, we would be neglecting our responsibilities as a pivotal country that stands for liberal and democratic values.”²⁰⁴

Chosun Ilbo also noted that, despite their respective leaders’ visit to Ukraine, the G7 nations faced little domestic backlash like in Korea.²⁰⁵ Rather, in Germany, the vice chancellor from the Green Party visited Kyiv in April and criticized Chancellor Schulz, who is a member of a different party, for delaying arms aid to Ukraine. The newspaper contended that “the Democratic Party’s claim that Russia might launch a retaliatory war on the Korean Peninsula because the South Korean president visited Ukraine is so far-fetched it couldn’t be made into a movie... it is unreasonable to argue that South Korea, which has become a major player in the world, should be left out when all countries in the liberal democratic camp are condemning Russian aggression and helping the people of Ukraine. If the opposition parties of the 16 countries that fought alongside us when we were invaded on June 25 were like the Democratic Party of Korea, there would be no South Korea.”²⁰⁶

JoongAng Ilbo, another major conservative newspaper, concurred that Yoon’s visit “demonstrated South Korea’s capacity as a Global Pivotal State.” South Korea’s support to Ukraine is a “reciprocation”

of the assistance Seoul got during the Korean War.²⁰⁷ Furthermore, “as Korean companies have already signed a memorandum of understanding (MOU) for the expansion of the Boryspil International Airport in Kyiv, it would be beneficial for the national economy if Korean companies participate in Ukraine’s \$200 trillion reconstruction project.” However, *JoongAng Ilbo* cautioned against direct arms provision to Ukraine, as such policy could “create another vicious cycle ... diplomacy always requires the concept of prudence, which means prudence, precision, and balance. It is time for a prudence that is proactive in supporting Ukraine, but not so much so that Russia becomes a complete and permanent enemy.”²⁰⁸

The People Power Party (PPP), the ruling conservative party elected in 2020, hailed Yoon’s visit as both securing national interests and “confirming solidarity with nations that share free and democratic values.”²⁰⁹ Conservative legislators stress that Korea overcame the tragedy of the Korean War, upheld liberal democracy, and achieved the economic Miracle of the Han River, thanks to the sacrifices of other liberal democracies. With the Yoon administration’s effort to brand South Korea as a “Global Pivotal State (GPS),” Korea is seeking to contribute more to protect the Liberal International Order. As postwar reconstruction was one main area of discussion in the South Korea-Ukraine Summit, the PPP has emphasized that the reconstruction work is projected to be worth 200 trillion won.

Enforcement and Cooperation

For South Korea, not only are geopolitics around North Korea and the domestic political divide crucial factors in the enforcement and coordination of sanctions, but so are concerns about the South Korean economy and its position in leading developing technologies, particularly regarding competition with China. South Korean businesses “increasingly feel competition from Chinese companies in high-tech fields.”²¹⁰ However, the Chinese market remains a major source of revenue for Korean chipmakers.

In Q4 2022, Samsung reported a year-on-year profit decrease by a whopping 97%. This is largely due to shrunken demand from the Chinese economy. Samsung expects sales recovery, with China’s reopening, but worries that US export controls could preclude it.²¹¹ In particular, the CHIPS and Sciences Act “prohibited recipients of subsidies from increasing semiconductor production capacity in China by 5% or more in the next 10 years.”²¹² Samsung reportedly hesitated to accept the subsidies, as it needs to upgrade its fabs in China to produce more high-end chips and meet the growing Chinese demand.²¹³ As of May 2023, Samsung and SK Hynix invested more than \$30 billion in their respective fab facilities in China. While modifications of the October 2022 regulations allowed technological advancement, South Korean companies are concerned that this might also change in the near future.

A very telling case study is the US request to South Korea to not backfill Micron’s vacuum in China. China imposed sanctions on Micron Technology, a major American chip producer. According

to the *Financial Times*, Washington requested Seoul to ensure that Samsung and SK Hynix do not take advantage of the withdrawal.²¹⁴ This report was met with anxiety and disappointment in Korea, where Samsung and SK Hynix were sympathetically described as “caught between the two giants.”²¹⁵ Granted, the US has good reasons to make such requests. Believing that even US allies will willingly make up for the American companies’ vacuum, China could be emboldened. However, South Korea expects reciprocal help should Seoul need one. As the Yoon government inches closer to the US, Korean media reports have stressed the importance of American measures to remedy China’s economic retaliation.²¹⁶ Washington should consider collaborating with regional allies to institutionalize collective anti-coercion measures.²¹⁷

In the same vein, it would benefit the US and its allies to formulate a shared idea on “criticality.” American policymakers frequently employ the metaphor “small yard, high fence” to describe its export controls on China.²¹⁸ However, it should develop more “detailed and robust processes for evaluating the consequences of emerging technologies,” both across its own institutions and with allies including South Korea.²¹⁹ In the 1990s, the US produced specific lists of critical technologies to help inform its economic competition with Japan. In hindsight, the Clinton White House’s “National Critical Technologies List” made wrong assumptions about certain technologies; “virtual reality software” was cited as critical, but personal mobile devices were not. Considering South Korea’s technological advancement, Washington should coordinate with Seoul to draw a more accurate forecast of the key battlegrounds in its competition with China.

Some Korean experts believe that unlike during the Ukraine War, South Korea will have to quickly join sanctions on China in a Taiwan contingency. Seoul's response to the Ukraine War took an escalatory ladder. In late 2021, as Russian troops amassed near the Ukraine border, Seoul did not respond. When the invasion began, it only agreed to "join international sanctions." Once most Western powers and Japan quickly imposed heavy unilateral sanctions on Russia, then the Moon Jae-in government announced its own set of unilateral sanctions. However, Korea's response to a Taiwan conflict might have to be more determined and swifter. Choo Jaewoo, professor of Chinese foreign policy at Kyunghee University, noted in an interview with this report's author that "unlike the Ukraine War, the direction of a Taiwan contingency will most likely be determined within a matter of weeks... hence, South Korea will have to make up its mind quickly."²²⁰ As US naval enforcement reaches the Taiwan Strait, the US and its allies will have to stop or blunt China's aggression. Some emphatic economic and military measures might have to be imposed on China from an early phase, with an escalation ladder shorter than one seen in the West's response to Russia's invasion.

Choo added that South Korea in fact might be compelled to join not only economic sanctions but also military actions. The 1953 US-ROK Mutual Defense Treaty specifically designates the "Pacific region" as its purview—it could be interpreted as including Korea's responsibility to help the US in the region should the latter's assets get attacked.²²¹ Choo noted that South Korea could be faced with a "choice of endangering the entire Korea-US alliance or joining the conflict."²²² At the same time, however, there are also views that the US could actually prefer South Korea to focus on deterring North

Korea, as there are concerns that a Taiwan contingency could be coupled with a separate crisis in the Korean Peninsula, as American assets and attention are spread out. The Yoon government's position on the Republic of China (Taiwan)—despite being much more pronounced than his predecessor's—has also been that responding to the North Korean threat would remain a priority even during a Taiwan conflict.²²³ Regardless, it seems certain that a Taiwan conflict would demand a much more proactive response from South Korea than the Ukraine War did. The geographical proximity, economic impact, and direct security implications of a potential Taiwan conflict are likely to pose an even more difficult dilemma for South Korea than the Ukraine War is.

South Korean perspective on the US export controls on China is closely intertwined with its perception of Washington's global economic leadership. Korean discussions of the US-China technology competition often include trade, where Washington is seen as increasingly isolationist. Kim Su-dong, a researcher at the Korea Institute for Industrial Economics and Trade, argued that as the Indo-Pacific Economic Framework (IPEF)—which he noted is “an excellent opportunity to reinforce US leadership at a critical geopolitical moment”—does not provide market access, Washington is tasked with “convincing participating countries to accept higher levels of trade rules without tangible benefits or gains.”²²⁴ The Biden administration believes that previous American trade policies focused too much on tariffs,²²⁵ and that the emphasis should be put elsewhere such as “creating good jobs, enhancing protections for labor and the environment, and tackling corruption.”²²⁶ However, as William Alan Reinsch of CSIS contended, “We (America) may

think tariffs are old news, but others do not.”²²⁷

Legitimacy

An often overlooked factor in enlisting South Korea’s support for export controls on China is legitimacy. In Korea, there is a profound perception among the general public that the existing export controls are “driven by economic competition,” especially in conjunction with the Biden administration’s domestic “Build Back Better” agenda.²²⁸ In general, onshoring critical supply chains is understood in the context of de-risking from the uncontrollable factors such as natural disasters, pandemics, or political developments in China. This is especially the case in the Korean business circle, where the supply chain disruptions from COVID left a deep impact. However, as the last two American administrations have endeavored to develop the “Made in America” initiative, the prevailing perception in both the Korean foreign policy circle and the public is that the US is pursuing its narrow commercial self-interests against China. The Inflation Reduction Act particularly alerted the previously agnostic Korean public on the perceived “selfishness” of American industrial policies. In sum, there is little perceived moral dimension to the export controls.

In a way, this conjures up a crude image of two great powers competing for technological advantage. In an interview with this report’s author, a journalist from a hard right-wing media, overwhelmingly associated with strong pro-American sentiments, quipped that “they (the US and China) are both bullies when it comes to economic or technological issues—we just prefer one over another because he

(the US) is nicer most other times.” In September 2022, an essay on the conservative *Dong-A Ilbo* described the Biden administration’s America First agendas as “worse than Trump’s,” from the perspective of US allies.²²⁹ Former South Korean diplomats bluntly label the Biden administration’s foreign economic policy a “more courteous Trump.” While the Korea-US alliance remains strong, the global perception that “America is not the America we used to know” is prevalent in Korea. There are even concerns among prominent voices that “the more the US sanctions China, the harder China will try to make rapid technological progress ... China will provide more national support for the goal. Then it will pose a crisis to South Korea, given China’s abundant talent and raw materials.”²³⁰

As a country whose growth relies on foreign exports, especially in electronics and semiconductors, South Korea could be very sensitive to what it might *perceive* are unwarranted export controls on China. This is especially the case as the Biden administration defined national security as including “economic prosperity and opportunity”, which is increasingly framed as hinging on competition with not only China but also with America’s own allies.²³¹ A report published in April 2022 by the Carnegie Endowment for International Peace warned that Washington’s technology controls can “conflict with its stated objective of fair, rules-based economic competition,” especially as WTO rules prohibit trade restrictions just because they are seen as economically important.²³² Critically, while most agree that the WTO needs vast reforms, the US has yet to articulate a credible alternative vision. With Washington internally undergoing intense debates on the fundamental basics of international trade—including the very utility of the WTO—this debate will likely persist among

US allies.²³³

Especially given that the default Korean position is to retain as much technological ties with China—while de-risking from critical dependency—the underlying narrative of the US-led technology would be crucial in persuading Seoul. During the row over THAAD between Seoul and Beijing, the South Korean public was overwhelmingly antagonistic toward China because the *perception* of the situation was one of a “powerful neighbor bullying us,” rather than one that involved a hegemonic competition between the US and China. The US should posit a clear explanation that the export controls on China are intended to blunt Chinese capacity to dominate the Indo-Pacific region, particularly China’s immediate neighborhood including China. It is imperative that the US-led export controls are intertwined with the broader efforts to prevent China’s regional predominance. Merely pointing to China’s unfair practices does not suffice—as the Carnegie report argued, “If China halted all unfair practices tomorrow, its tech industry would still likely represent the most significant challenge to US technology leadership and global competitiveness since the rise of Japan in the 1980s.”²³⁴

Indeed, Chinese aggression against Taiwan would legitimize a corresponding response from South Korea; the rationale for tighter export controls, or even sanctions, would be much more consolidated. Even then, if the US pushes forward with export controls without discussion with allies or elects to prioritize American commercial interests in the ensuing fallout, the South Korean reaction could be negative. Given that China is more likely to engage in some gray

zone warfare including a potential blockade rather than an outright amphibious invasion, the American response could determine the perceived legitimacy of further actions on China. Chris Miller, senior fellow at the Foreign Policy Research Institute's Eurasia Program and the author of *Chip War*, noted in an interview with this report's coauthor that China could pass the buck to the US by taking actions short of an actual "war," hence putting the pressure on the US to either escalate the situation or back down.²³⁵ Just as the Moon Jae-in administration declined to take much action before the actual invasion, a quasi-crisis in Taiwan could put Seoul in a difficult spot in whether to join harsher export controls on China. Hence, prior consultations would be critical, and both escalatory measures *and* de-escalatory ladder would be of critical importance.

Conclusion

South Korea's experience with the sanctions regime against Russia is unique. Although it was by no means alone in continuing to expand international economic ties with Russia in the aftermath of the first invasion in 2014, it was the closest Western partner not to join the key elements of the sanctions regime, from trade restrictions to banking limitations. Other significant Western-adjacent countries also joined the sanctions regime—most notably Singapore and Switzerland, which had more banking links with Russia although they also had significant technological and shipbuilding ties respectively. Neither had security concerns anywhere near those facing Seoul, let alone ones in which Russia had a significant role to play as is the case on the Korean Peninsula.²³⁶ South Korea is, however, a major success story in terms of the West's sanctions regime, and one with significant lessons for the expansion and effective implementation of sanctions.

First, South Korea's position as a major technology and industrial manufacturer means that its inclusion in the sanctions regime cuts off Russia from yet another significant market. The role of South Korean industry also highlights how such programs face challenges but can

also be made more effective. South Korea's large businesses, also known as chaebols, often have complex subsidiary structures, both domestically and internationally, that can complicate enforcement. Their strong ties to the South Korean government as well as unified senior management offer the potential for enforcement to be structured as lying with the corporate parent and senior management, which can be harnessed to improve enforcement.

Second, South Korea has accepted significant costs in joining the sanctions regime after 2022, both in terms of its own energy relations with Russia and with regard to the costs assumed by South Korean industry. These come in the context of additional the security costs borne by the South Korean government as Russia has moved closer to Pyongyang following its full-scale invasion of Ukraine. Together these highlight the need for the core of the sanctions-imposing alliance in Europe and the US to better manage the impact of the economic war on key allies such as Seoul. As we have seen, South Korean politics have not always been aligned with the West's position on Russia, and it cannot be taken for granted that they will continue to do so; indeed, there are voices now in the South Korean opposition who have called for an alternate approach.

Third, South Korea's entry into the Russian sanctions regime highlights the significant challenges that it faces as an Asian country in the face of potential growing economic warfare between the West and China in the coming years. The political, economic, and security costs that Seoul would have to bear if this conflict expands significantly will be far greater than those that it has faced in supporting the sanctions and trade restrictions on Russia.

Whereas Russia is primarily a consumer of technology and high-end industrial products from South Korea and the West, Beijing is a rival producer. While the impact of the economic war with Russia has undoubtedly had significant short-term costs, it also has long-term ones as it leaves the market open to non-sanctions-imposing countries such as China.

While sanctions and trade restrictions have proven the key stick in fighting back in the economic war, international cooperation and support for sharing the costs of imposing sanctions have been largely lacking—in other words the ‘carrots’ that are needed to ensure that the ‘stick’ approach is sustainable. As South Korea’s business community and political environment adapt to the reality of Russian sanctions, it should not be left to bear these costs on its own.

The wider West’s economic war with Russia is a battle that the Kremlin cannot win, but it is one that can be lost. The international coalition that has arisen to resist the Kremlin’s own economic weaponization and devastating war against Ukraine requires continued democratic and private sector buy-in. South Korea’s experience is a success story, but one that cannot be taken for granted. 

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ABOUT THE AUTHORS

Maximilian Hess is a Central Asia Fellow in the Eurasia Program at the Foreign Policy Research Institute and the founder of the London-based political risk firm Enmetena Advisory. He is also the author of *Economic War: Ukraine and the Global Conflict between Russia and the West* (Hurst, 2023). His research focuses on the relationship between trade, debt, international relations, and foreign policy, as well the overlap between political and economic networks.

Tachwa Hong is a Fellow in the Eurasia Program at the Foreign Policy Research Institute. Hong advises the South Korean Ministry of Trade, Industry and Energy on Economic Security and Geopolitics. He was formerly a research assistant and intern at think-tanks including the Hoover Institution, Institute of National Security Studies (Israel), Freeman Spogli Institute, Korea Economic Institute, and the EastWest Institute. Tachwa Hong's research focuses on US Grand Strategy, International Security, the Indo-Pacific and the Middle East. His analyses have appeared in publications such as *Foreign Policy*, *The Business Times*, *Asia Times*, *YaleGlobal*, and The Fletcher Forum of World Affairs. He also regularly writes columns for major Korean news media including *JoongAng Ilbo*, *Monthly Chosun*, and *Shindonga*. Hong holds a B.A. in International Relations from Stanford University and an MPhil in Politics and International Studies from the University of Cambridge.



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Authors:

Maximilian Hess, Taehwa Hong

Eurasia Program Director

Maia Otarashvili

Eurasia Head of Research

Robert E. Hamilton

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Ashley Greenman

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Natalia Kopytnik

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SEOUL SEARCHING

Lessons From South Korea's Experience with Sanctions Against Russia

Russia and the West have found themselves enmeshed in an expansive economic war as a result of Russian President Vladimir Putin's decision to launch the full-scale invasion of Ukraine on February 24, 2022. While the conflict on the ground in Ukraine is undoubtedly—and tragically—the primary front of Russia's aggression, Western powers have joined with a wide swathe of the international community to support Ukraine's resistance and hold the Kremlin to account.

This book examines the impact of this economic war on one often overlooked but deeply affected country, the Republic of Korea (or South Korea). It provides an overview of South Korea's sanctions on Russia, reviews the status quo of South Korean companies operating in Russia and how they are managing the tricky market situation, and considers the economic impact of sanctions and the Ukraine War on South Korea. The book also discusses current bilateral political relations and the deteriorating political tension between South Korea and Russia, and reflects on the broader divergence in the conservatives' and the progressives' foreign policy outlook, specifically the partisan divide within South Korea on how to deal with Russia.

Maximilian Hess is a Central Asia Fellow in the Eurasia Program at the Foreign Policy Research Institute and the founder of the London-based political risk firm Enmetena Advisory. He is also the author of *Economic War: Ukraine and the Global Conflict between Russia and the West* (Hurst, 2023).

Taehwa Hong is a Fellow in the Eurasia Program at the Foreign Policy Research Institute and an advisor to the South Korean Ministry of Trade, Industry and Energy on Economic Security and Geopolitics.



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